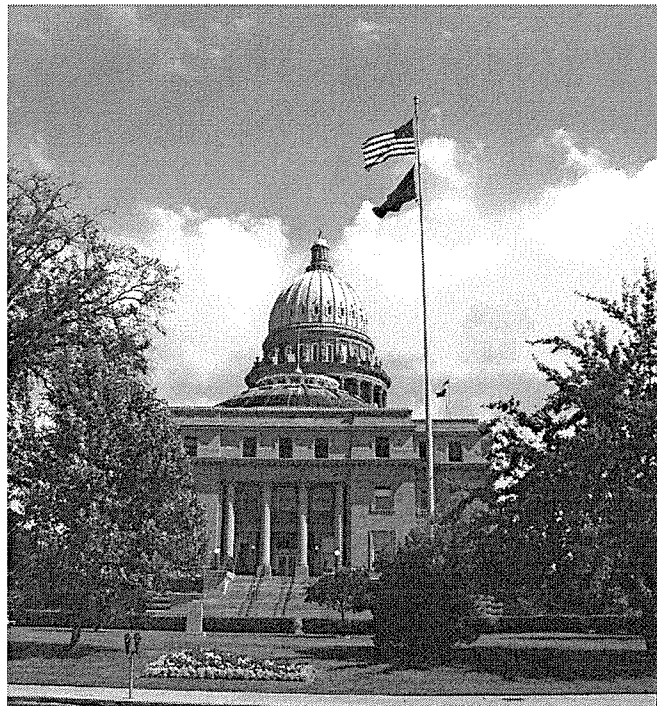


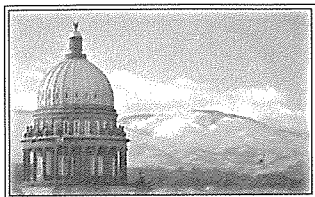
Single Audit Report

For the Fiscal Year Ended June 30, 2006



State of Idaho

Legislative Services Office



Legislative Services Office

Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

April 30, 2007

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Idaho State Legislature
Honorable Donna Jones, State Controller

We are pleased to submit the statewide *Single Audit* of the State of Idaho covering the fiscal year ended June 30, 2006. This report complies with the audit requirements placed on the State of Idaho as a condition for receiving \$1.9 billion in federal assistance (colleges and universities, with more than \$313 million in federal expenditures are reported separately).

Idaho does a good job administering its federal funds in compliance with applicable laws and regulations. Questioned costs for fiscal year 2006 totaled \$5,226,000, although several issues are reported for which questioned costs could not be determined.

The federal audit requirements are contained in Title 31, Chapter 75, United States Code, as amended by the Single Audit Act Amendments of 1996. The objectives of the Single Audit Act are:

- To improve the financial management of state and local governments with respect to federal financial assistance programs through improved auditing.
- To establish uniform requirements for audits of federal financial assistance provided to state and local governments.
- To promote the efficient and effective use of audit resources.
- To ensure that federal departments and agencies, to the maximum extent practicable, rely on and use audit work performed pursuant to the requirements of the Single Audit Act.

The Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, was issued to facilitate the implementation of the Single Audit Act as amended in 1996. *OMB Circular A-133* places the responsibility for identifying major programs to audit on the auditor. A risk-based approach, which considers current and prior audit experience, federal oversight, and inherent risk, is used to identify major programs. All audit issues are in the section entitled "Auditor's Results." Internal control weaknesses and compliance issues related to federal awards are included in the subsection entitled "Federal Findings and Questioned Costs." Internal control weaknesses and compliance issues related to the basic financial statements are included in the subsection entitled "State Findings and Recommendations."

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

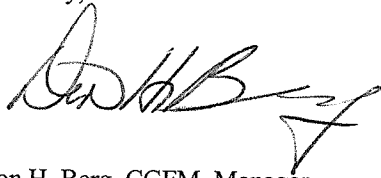
Glenn Harris, Manager
Information Technology

This document contains the following reports and schedules:

- Basic Financial Statements and Notes and the related Independent Auditor's Opinion.
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
- Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*.
- Supplementary Schedules of Expenditures of Federal Awards.
- Auditor's Results (schedules of current and prior federal findings and questioned costs, as well as current and prior State findings and recommendations).

While only the State's basic financial statements are reproduced in this report, the complete *Comprehensive Annual Financial Report (CAFR)* can be obtained from either the State Controller's Office or our office.

Sincerely,

A handwritten signature in black ink, appearing to read 'Don H. Berg', with a stylized flourish at the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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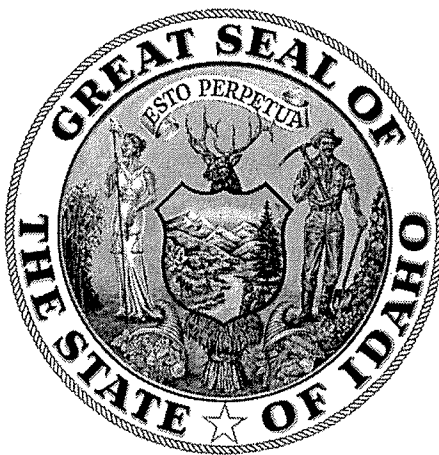
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**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

BASIC FINANCIAL STATEMENTS

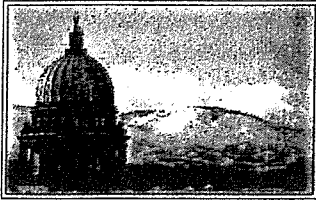


**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

BASIC FINANCIAL STATEMENTS

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Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

December 8, 2006

Independent Auditor's Report

Honorable James Risch, Governor
Honorable Members of the Legislature
Honorable Keith Johnson, State Controller

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho as of and for the year ended June 30, 2006, that collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Idaho, Idaho State University, Boise State University, Lewis and Clark State College, Eastern Idaho Technical College and their respective component units, nor the Endowment Fund Investment Board, State Lottery Commission, Public Employees Retirement System of Idaho, IDEal Idaho College Savings Program, the Idaho Life and Health Insurance Guaranty Association, Idaho Individual Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Petroleum Clean Water Trust Fund, Idaho Building Authority, and the Idaho Housing and Finance Association. Those financial statements represent total assets and revenues of the government-wide financial statements and total assets and revenues of the fund financial statements as follows:

<u>Government-Wide Financial Statements</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Primary Government - Governmental Activities	16.6%	3.6%
Primary Government - Business-Type Activities	66.7%	67.7%
Aggregate Discretely Presented Component Units	98.6%	99.3%
<u>Fund Financial Statements</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Governmental Funds		
Public School Endowment - Major Fund	99.6%	97.2%
Pooled Endowment - Major Fund	100.0%	100.0%
Proprietary Funds		
College and Universities - Major Fund	100.0%	100.0%
Aggregate Remaining Fund Information	82.5%	34.7%

Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those agencies and component units, are based on the reports of the other auditors.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Ray Ineck, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The financial statements of the Idaho Life and Health Insurance Guaranty Association, the Idaho Housing and Finance Association, and the IDEal Idaho College Savings Program were not audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, are not covered by our reports in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Idaho as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 8, 2006, on our consideration of the State of Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 12, and the required supplementary information on pages 98 through 102, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, the combining and individual non-major financial statements, and the statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Yours truly,



Ray Ineck, Manager
Legislative Audits Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the State of Idaho's financial performance provides an overview and analysis of the State's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter, which can be found preceding this narrative, and the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights

The assets of the State's primary government exceeded its liabilities for the fiscal year ended June 30, 2006, by \$7.7 billion (reported as net assets). Of this amount, \$975.1 million (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors.

In fiscal year 2006 the State's total net assets increased by \$716.0 million. Net assets of governmental activities increased by \$577.9 million, while net assets of business-type activities increased by \$138.1 million.

Fund Highlights

As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$2.1 billion, with \$1.0 billion reserved for specific purposes and \$1.1 billion unreserved. This includes the General Fund's unreserved fund balance of \$755.6 million.

Long-Term Debt

The State's long-term debt decreased \$2.1 million from \$565.7 million in fiscal year 2005 to \$563.6 million in fiscal year 2006. The key factor in this decrease was the colleges and universities paying off debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which include the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which report information about the State as a whole and present a long-term view of the State's finances using accounting methods similar to those used in the private sector. The statements are prepared using the flow of economic resource measurement focus and accrual basis of accounting, under which the current year's revenues and expenses are recorded as transactions occur rather than when cash is received or paid.

The *Statement of Net Assets* reports all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This Statement reports expenses and revenues in a format that focuses on the net cost of each function, allowing you to see which functions of the State draw upon the general revenues of the State and which functions contribute to the general revenues of the State.

The government-wide financial statements are divided into the following three categories:

Governmental activities encompass most of the State's basic services, such as general government, public safety and correction, health and human services, education, economic development, and natural resources. Revenues from taxes and federal grants finance most of these activities.

Business-type activities account for operations that function in a manner similar to private business, where all or a significant portion of costs are recovered through user fees and charges to external customers. These activities primarily include higher education, unemployment benefit payments, and loans to cities and counties to make improvements to wastewater and drinking water systems.

Discretely presented component units are organizations legally separate from but financially accountable to the State, or their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Discretely presented component units include the Idaho Housing and Finance Association, the college and university foundations, the Petroleum Clean Water Trust Fund, the Idaho Individual High Risk Reinsurance Pool, the Idaho Small Employer Health Reinsurance Program, the Idaho Bond Bank Authority, and the Idaho Life and Health Insurance Guaranty Association.

Fund Financial Statements

The fund financial statements provide detailed information about the State's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to demonstrate compliance with finance-related legal requirements. The State's funds are divided into the following three categories:

Governmental funds account for most of the State's basic services and provide a detailed short-term view of the State's general government operations. They account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements and capabilities. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Governmental funds include the General Fund, special revenue funds, and permanent funds.

Proprietary funds account for activities similar to for-profit enterprises, where the determination of net income is necessary for sound financial administration. Proprietary funds include enterprise and internal service funds. Enterprise funds report activities that provide supplies or services to the general public; internal service funds report activities that provide supplies and services for the State's programs and activities. Internal service funds are reported as governmental activities on the government-wide statements since their services predominantly benefit the State. Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail. As in the government-wide statements, proprietary fund financial statements use the accrual basis of accounting.

Fiduciary funds account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's programs. These funds are reported using the accrual basis of accounting.

This report includes two schedules in the governmental fund financial statements that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities and balances reported on the appropriate government-wide statements (accrual accounting). By comparing the information presented for governmental funds with similar information presented in the government-wide financial statements, you may better understand the long-term impact of the State's near-term financing decisions.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes the following:

- budgetary comparison schedules reconciling the statutory operating activities and the generally accepted accounting principles operating activities and fund balances, as presented in the governmental fund financial statements
- condition and maintenance data regarding the State's infrastructure that is reported using the modified basis
- schedules of funding progress and actuarial information in funding the State's obligation to provide pension benefits to certain employees

Other Supplementary Information

Combining financial statements are presented after the required supplementary information to provide more detail for nonmajor special revenue, proprietary, and fiduciary funds. The total columns of these combining financial statements tie to the applicable combined fund financial statement.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net Assets

Net assets measure the difference between what the State owns (assets) versus what the State owes (liabilities). Net assets may serve over time as a useful indicator of the State's financial position. The State's assets exceeded liabilities by \$7.7 billion for the most recent

fiscal year. The State's combined net assets increased \$716.0 million over the course of this fiscal year's operations. Net assets of governmental activities increased \$577.9 million and business-type activities net assets increased \$138.1 million.

Net Assets
June 30, 2006 and 2005
(dollars in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005*	2006	2005*
Current and Other Assets	\$3,545,351	\$3,145,486	\$1,028,434	\$917,761	\$4,573,785	\$4,063,247
Capital Assets	4,401,997	4,190,737	786,323	758,176	5,188,320	4,948,913
Total Assets	7,947,348	7,336,223	1,814,757	1,675,937	9,762,105	9,012,160
Other Liabilities	1,189,989	1,168,320	105,416	93,577	1,295,405	1,261,897
Long-Term Liabilities	412,170	400,585	357,709	368,860	769,879	769,445
Total Liabilities	1,602,159	1,568,905	463,125	462,437	2,065,284	2,031,342
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	4,179,097	3,978,358	467,275	447,206	4,646,372	4,425,564
Restricted	1,354,676	1,255,613	720,721	619,352	2,075,397	1,874,965
Unrestricted	811,416	533,347	163,636	146,942	975,052	680,289
Total Net Assets	\$6,345,189	\$5,767,318	\$1,351,632	\$1,213,500	\$7,696,821	\$6,980,818

*These columns have been restated. More detailed information can be found in Note 13.

The largest component of the State's net assets, \$4.6 billion or 60.4 percent, reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), net of accumulated depreciation and less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to citizens. These assets are not available for future spending.

Restricted net assets are the next largest component, comprising 26.9 percent (\$2.1 billion). These resources are not available for general use due to restrictions placed on them by external parties such as creditors,

grantors, or contributors; or by state law through constitutional provisions or enabling legislation.

The remaining 12.7 percent (\$975.1 million) of net assets represents unrestricted net assets, which may be used at the State's discretion but often have limitations on use based on state statutes.

At the end of the current fiscal year the State reported positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Change in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

(dollars in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2006	2005*	2006	2005*	2006	2005*	
Revenues							
Program Revenues							
Charges for Services	\$786,444	\$747,633	\$731,194	\$649,504	\$1,517,638	\$1,397,137	8.6
Operating Grants and Contributions	1,899,754	1,832,487	229,902	228,049	2,129,656	2,060,536	3.4
Capital Grants and Contributions	8,624	5,211	20,231	19,965	28,855	25,176	14.6
General Revenues							
Sales Tax	1,061,861	1,135,210			1,061,861	1,135,210	(6.5)
Individual and Corporate Taxes	1,428,996	1,167,799			1,428,996	1,167,799	22.4
Other Taxes	406,485	406,176			406,485	406,176	0.1
Other	56,138	38,740			56,138	38,740	44.9
Total Revenues	5,648,302	5,333,256	981,327	897,518	6,629,629	6,230,774	6.4
Expenses							
General Government	634,262	606,542			634,262	606,542	4.6
Public Safety and Correction	266,036	229,158			266,036	229,158	16.1
Health and Human Services	1,676,706	1,600,692			1,676,706	1,600,692	4.7
Education	1,385,448	1,331,795			1,385,448	1,331,795	4.0
Economic Development	629,499	616,149			629,499	616,149	2.2
Natural Resources	213,599	205,635			213,599	205,635	3.9
Interest Expense	21,130	18,175			21,130	18,175	16.3
College and University			780,066	753,689	780,066	753,689	3.5
Unemployment Compensation			109,113	142,862	109,113	142,862	(23.6)
Loan			719	654	719	654	9.9
State Lottery			97,605	89,424	97,605	89,424	9.1
Liquor Dispensary			93,204	79,817	93,204	79,817	16.8
Correctional Industries			6,239	5,655	6,239	5,655	10.3
Total Expenses	4,826,680	4,608,146	1,086,946	1,072,101	5,913,626	5,680,247	4.1
Increase (Decrease) in Net							
Assets before Transfers	821,622	725,110	(105,619)	(174,583)	716,003	550,527	30.1
Transfers	(243,751)	(255,219)	243,751	255,219	0	0	
Change in Net Assets	577,871	469,891	138,132	80,636	716,003	550,527	30.1
Net Assets, Beginning							
of Year, as Restated	5,767,318	5,297,427	1,213,500	1,132,864	6,980,818	6,430,291	8.6
Net Assets, End of Year	\$6,345,189	\$5,767,318	\$1,351,632	\$1,213,500	\$7,696,821	\$6,980,818	10.3

*These columns have been restated. More detailed information can be found in Note 13.

The Total Percent Change column shows the percentage change in operations from fiscal year 2005 to 2006 for each line item. Readers should be cautious when using this column to evaluate the overall change in net assets. Although a line may show a large percentage change (e.g., 44.9 percent for other general revenues, \$17.4 million), it may not have as significant of an effect on the overall change in net assets as a change in a more material line item with a smaller percentage change (e.g., 3.4 percent for operating grants and contributions, \$69.1 million).

Governmental Activities

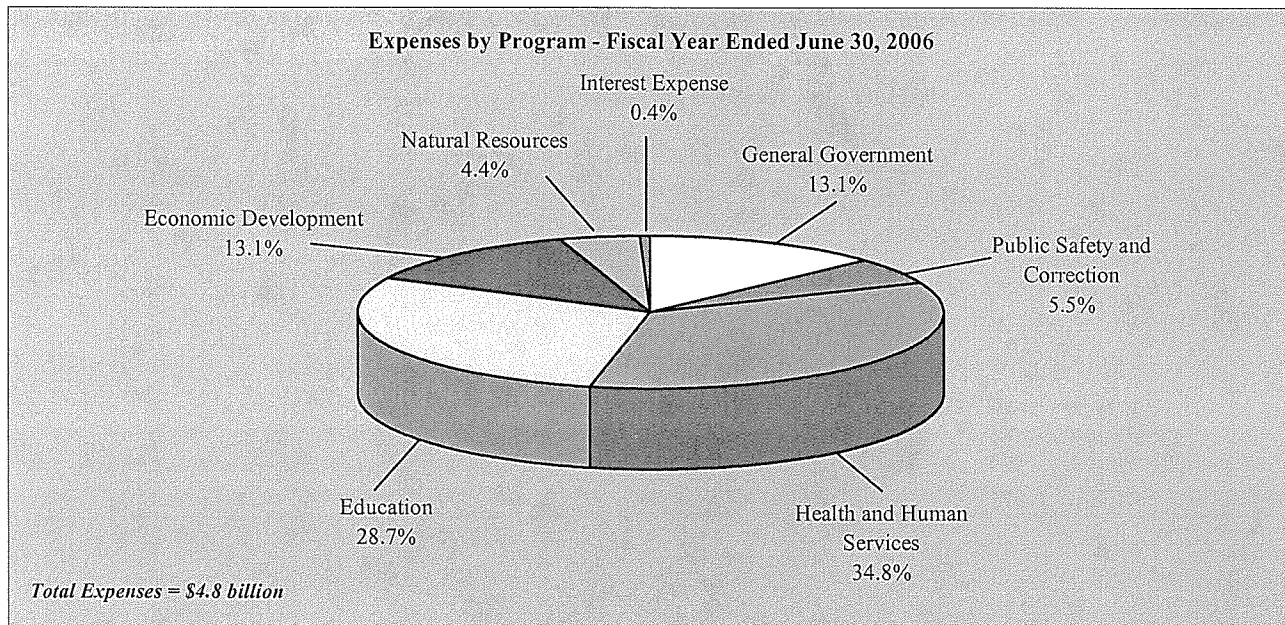
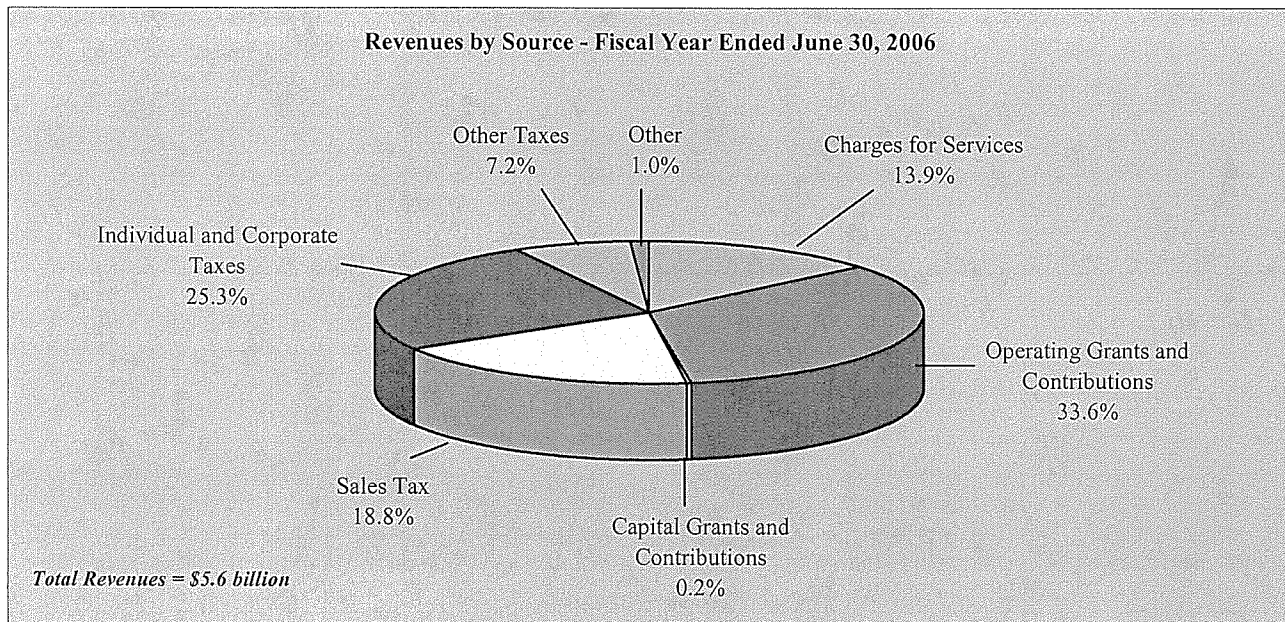
The overall financial position for Governmental Activities improved during the fiscal year, as evidenced by the \$577.9 million increase in net assets. Key

elements of this increase include a 22.4 percent increase (\$261.2 million) in individual and corporate income taxes due to increasing levels of employment and

personal income. In addition, revenues from operating grants and contributions increased 3.7 percent (\$67.3 million) mainly due to increased federal grants to the Idaho Transportation Department for infrastructure; the Division of Military for homeland security programs; and the Department of Health and Welfare for medical assistance. The revenue increases were offset to a degree by increased expenses and a reduction of sales tax revenues due to the sunset of the temporary one percent sales tax increase. The most significant change in expenses was an increase in Health and Human Services

expenses of 4.7 percent (\$76.0 million) due to greater assistance payments, mainly related to Medicaid payments. Education expenses increased by 4 percent (\$53.7 million) mainly due to expenditures for public school support to increase teacher benefits and participation in the teachers' Early Retirement Program. An increase of 16.1 percent (\$36.9 million) for Public Safety and Correction expenses was primarily related to rising institutional costs due to inmate population growth, county jail and out-of-state placements, and the increasing cost of medical services for inmates.

The following charts depict revenues and expenses of the governmental activities:



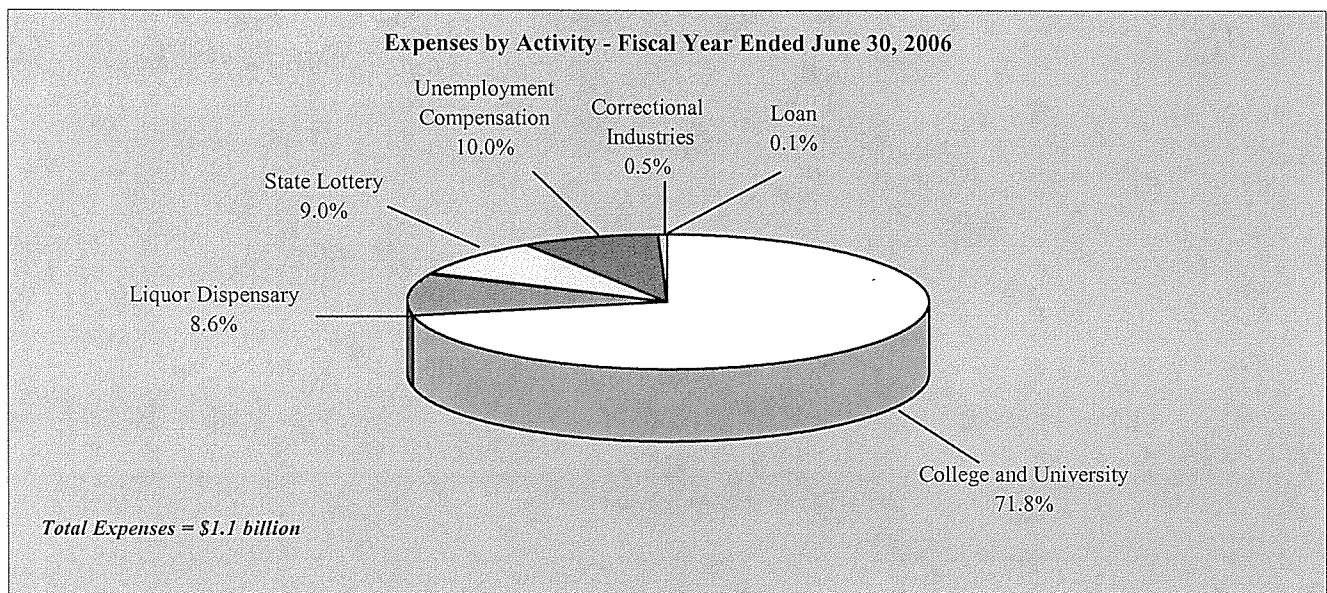
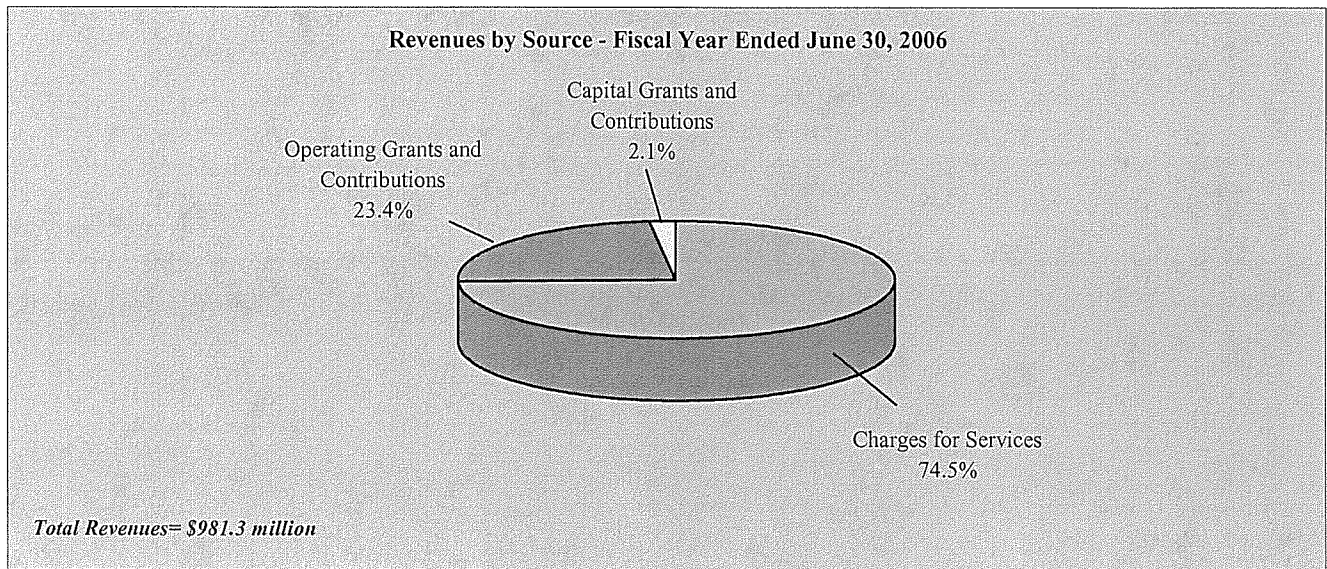
Business-Type Activities

Business-type activities net assets increased by \$138.1 million in fiscal year 2006. The largest changes were seen in the following funds:

- College and University net assets increased by \$51.2 million primarily due to an increase of \$25.2 million in student tuition and fees and an increase of \$8.0 million in auxiliary sales of goods and services.

- The Unemployment Compensation fund saw an increase in net assets of \$46.7 million primarily due to an \$18.9 million increase in assessments relating to unemployment insurance and a \$33.9 million decrease in unemployment claims related to low unemployment.

The following charts depict revenues and expenses of the business-type activities:



FINANCIAL ANALYSIS OF THE STATE'S FUNDS**Governmental Funds**

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$2.1 billion, an increase of \$353.5 million in comparison with the prior fiscal year. Of this amount \$1.1 billion (52.4 percent) constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds, but may be limited by state statutes. The remainder of the fund balance, \$1.0 billion (47.6 percent), is reserved to indicate that it is not available for new spending because it has been reserved for various commitments, such as liquidation of purchase orders and contracts of the prior period and permanent trusts held for education.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance was \$755.6 million and reserved fund balance was \$30.4 million. Total fund balance increased \$248.5 million (46.2 percent) during the fiscal year, primarily as a result of revenue increases. Individual and corporate tax revenues increased \$259.3 million and investment income increased \$17.6 million, compared to the prior fiscal year.

Health and Welfare's fund balance decreased from fiscal year 2005's fund balance of \$2.5 million to a fund balance of \$2.3 million in fiscal year 2006. This decrease was primarily due to an increase in Health and Human Service's costs.

Transportation's fund balance decreased during the current fiscal year by \$15.7 million due mainly to an increase of \$27.5 million in infrastructure expenditures from the prior fiscal year.

Public School Endowment's fund balance increased \$75.4 million in fiscal year 2006, due largely to \$46.4 million in receipts from timber sales and land leases, and an increase of \$47.3 million in the fair value of investments.

Pooled Endowment's fund balance increased by \$34.7 million in fiscal year 2006, mainly attributable to \$22.4 million in receipts from timber sales and land leases, and

an increase of \$22.8 million in the fair value of investments.

Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Enterprise funds are discussed in business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Legislature made final adjustments to the fiscal year 2006 budget based on an estimated 6.5 percent revenue increase. Through March, revenues exceeded that estimate by about \$25.0 million. Determining what to do with a \$222.6 million surplus was the single biggest concern in fiscal year 2006. During fiscal year 2006 the majority of the surplus was transferred into the Budget Stabilization Fund (\$70.0 million); supplementals were granted for Medicaid, indigent health, corrections, and fires (\$26.3 million); and a one percent, one-time salary increase for state and school district employees (\$14.2 million). For fiscal year 2007 the majority of the remaining surplus will be transferred to the Public Schools Cooperative Fund (\$24.0 million); the Permanent Building Fund for prison construction and higher education (\$21.0 million); and the Economic Recovery Fund for economic development projects (\$23.9 million).

The variance between the original budget and the final budget in the expenditures section of the General Fund Budgetary Comparison Schedule is \$30.7 million, a 1.3 percent increase in original expenditure appropriations. The original budget amount represents the original appropriation, prior year reappropriations, and continuous appropriations. The final budget amount includes the original budget plus supplemental (positive or negative) appropriations, Governor's holdbacks, Board of Examiners reductions, object transfers, actual transfers, and receipts to the appropriation. The variation between the final budget and actual spending was a favorable \$85.6 million (or 3.5 percent).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the State had \$5.2 billion (net of accumulated depreciation) invested in a broad range of capital assets, as can be seen in the table below.

Depreciation charges for this fiscal year totaled \$96.3 million.

Capital Assets as of June 30, 2006 and 2005

(Net of depreciation, dollars in thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2006	2005*	2006	2005	2006	2005*
Land	\$920,053	\$900,100	\$53,927	\$41,019	\$973,980	\$941,119
Construction in Progress	649,558	599,979	45,287	63,152	694,845	663,131
Infrastructure--not Depreciated	1,829,168	1,826,959			1,829,168	1,826,959
Historial Art and Collections	123	123	2,123	2,222	2,246	2,345
Intangible Assets			24,382	22,573	24,382	22,573
Buildings and Improvements	388,041	352,791	553,716	521,186	941,757	873,977
Improvements Other Than Buildings	30,838	30,575	22,863	22,874	53,701	53,449
Machinery, Equipment, and Other	118,818	117,035	84,025	85,150	202,843	202,185
Infrastructure--Depreciated	465,398	363,175			465,398	363,175
Total	\$4,401,997	\$4,190,737	\$786,323	\$758,176	\$5,188,320	\$4,948,913

*These columns have been restated. More detailed information can be found in Notes 6 and 13.

The total increase in investment in capital assets for the current fiscal year (including additions and deductions) was \$239.4 million, or 4.8 percent. This year's major additions include \$345.5 million spent for infrastructure assets, which includes construction in progress (\$203.7 million), roadways (\$4.7 million), rights-of-way (\$16.2 million), and bridges and ports of entry (\$120.9 million).

The State uses the traditional method of depreciation for its 1,657 bridges and 34 rest areas or ports of entry. The State has adopted the modified approach for reporting roads. Under this alternative method, certain maintenance and preservation costs are expensed and depreciation expense is not reported. Approximately 11,874 lane miles of roads are accounted for under the modified approach. The State manages its roadway network using its Pavement Management System to monitor road surface condition. The pavement surface condition rating is a numerical condition scale ranging from 0.0 (extremely poor) to 5.0 (good). A roadway surface is considered substandard under this approach at less than 2.0. The State's established condition level is to have no more than 18 percent of road surfaces in substandard condition. The latest condition assessment rating showed that the State had 81 percent of its road surfaces in good or fair condition, remaining the same from condition assessment year 2004, and down from 84 percent in condition assessment year 2003. During fiscal year 2006 the State spent \$69.5 million to maintain Idaho's road surfaces, down from \$79.3 million spent

during fiscal year 2005. More detailed information about the State's capital assets is presented in Notes 1 and 6 to the financial statements and in required supplementary information.

Long-Term Debt

Article VIII, Section 1, of the *Idaho Constitution*, amended in 1998, specifies that the Legislature shall not create any debts or liabilities, except in extreme emergencies, unless authorized by law and then approved by the people at a general election. This does not apply to liabilities incurred for ordinary operating expenses, nor debts or liabilities that are repaid by the end of the fiscal year. The debts or liabilities of independent public bodies corporate and politic created by law and which have no power to levy taxes or obligate the General Fund of the State are not debts or liabilities of the State.

Legislation passed during the 2005 legislative session revised *Idaho Code*, Title 40, to address the increasing need for timely improvements to Idaho's highway infrastructure. The Idaho Transportation Board, with the approval of the Legislature, can approve debt financing for transportation infrastructure projects utilizing future federal-aid highway revenues. Opinions have been received from the Office of the Attorney General, based on the Idaho Supreme Court decision in *Ada County v. Wright*, to the effect that this procedure does not create a

liability of the State in violation of the *Idaho Constitution*.

New debt mainly resulted from the Idaho State Building Authority, the Department of Administration, the Department of Fish and Game, and the Judicial Department, issuing revenue bonds and notes, and acquiring capital leases in the amounts of \$10.8 million, \$3.9 million, \$3.6 million, and \$2.1 million, respectively for various projects and equipment.

The shadow rating for the State of Idaho remained the same during the year (Aa2). Since the State does not issue general obligation debt, a shadow rating is a rating given had such debt been issued.

Moody's, an investor rating service, has assigned its top issuer rating of MIG1 for short-term debt to the State with a stable outlook for its tax anticipation notes. The State's conservative debt policies have led to modest state debt levels, falling well below national medians. More detailed information about the State's long-term debt is presented in Notes 1 and 12 to the financial statements.

ECONOMIC FACTS AND NEXT YEAR'S BUDGET

The State experienced an improving economy during fiscal year 2006 and expects the same for fiscal year 2007. The fiscal year 2007 General Fund budget is based on an expected revenue growth of 4.7 percent, the median estimate of the Economic Outlook and Revenue Assessment Committee. The spending blueprint approved by the Legislature for fiscal year 2007 reflects a 5 percent increase over the final fiscal year 2006 appropriation. For the first time in several years the Legislature had the resources to fully fund current program services. This budget blueprint included funding of health insurance increases, a 1.9 percent inflationary increase, and 3 percent funding for a merit-based employee pay increase. In addition to the 3

percent funding, the Legislature provided \$5.0 million in general funds to increase compensation for specific job classes that were substantially below the state's prevailing midpoint.

The fiscal year 2007 budget funded Medicaid cost and caseload increases, as well as education enrollment growth in K-12 and higher education. Costs associated with inmate growth in Idaho's corrections system, which will include the construction of a 300-bed medium security prison, also were covered in the fiscal year 2007 budget.

An extraordinary legislative session was held on August 25, 2006, to consider legislation proposed by the Governor to reduce property taxes. The Property Tax Relief Act of 2006 reduced property taxes by approximately \$260.0 million by eliminating the public schools maintenance and operation levy and raising the sales tax, effective October 1, from five to six percent. An appropriation of \$100.0 million from the General Fund to the Public Education Stabilization Fund replaces the money for the maintenance and operation levy for public schools and protects education funding. An advisory question was placed on the November 2006 general election ballot asking Idaho voters if the State should keep the Act, thereby reducing property taxes and protecting funding for public schools by keeping the sales tax at six percent; the voters approved of the Act.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, the Legislature, investors, and creditors with a general overview of the State's finances and to show the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the State Controller, 700 West State Street, P.O. Box 83720, Boise, ID 83720-0011, (208) 334-3150.

State of Idaho

Statement of Net Assets

June 30, 2006

(dollars in thousands)

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash with Treasurer	\$925,717	\$82,350	\$1,008,067
Cash and Cash Equivalents	8,056	214,678	222,734
Investments	1,117,785	206,771	1,324,556
Securities Lending Collateral	807,844		807,844
Accounts Receivable, Net	50,212	95,798	146,010
Taxes Receivable, Net	276,927		276,927
Internal Balances	927	(927)	
Due from Other Entities	163,922		163,922
Inventories and Prepaid Items	41,019	17,448	58,467
Due from Primary Government			
Due from Component Unit		85,504	85,504
Loans and Notes Receivable, Net	7,580	171,531	179,111
Other Assets	6,002	13,145	19,147
Restricted Assets:			
Cash and Cash Equivalents	125,462	81,350	206,812
Investments	13,898	60,786	74,684
Capital Assets:			
Nondepreciable	3,398,902	125,719	3,524,621
Depreciable, Net	1,003,095	660,604	1,663,699
Total Assets	\$7,947,348	\$1,814,757	\$9,762,105
LIABILITIES			
Accounts Payable	\$83,431	\$17,428	\$100,859
Payroll and Related Liabilities	24,216	34,942	59,158
Medicaid Payable	135,774		135,774
Due to Other Entities	68,792	4,818	73,610
Unearned Revenue	38,009	33,598	71,607
Amounts Held in Trust for Others	5,774	2,214	7,988
Due to Primary Government			
Due to Component Unit		276	276
Obligations Under Securities Lending	807,844		807,844
Other Accrued Liabilities	26,149	12,140	38,289
Long-Term Liabilities:			
Due Within One Year	66,893	33,261	100,154
Due in More Than One Year	345,277	324,448	669,725
Total Liabilities	1,602,159	463,125	2,065,284
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,179,097	467,275	4,646,372
Restricted for:			
Claims and Judgments	39,495		39,495
Debt Service	13,939		13,939
Intergovernmental Revenue Sharing	14,777		14,777
Transportation	105,228		105,228
Regulatory	47,464		47,464
Natural Resources and Recreation	65,075	167,195	232,270
Unemployment Compensation		276,365	276,365
Permanent Trust - Expendable	131,500	73,058	204,558
Permanent Trust - Nonexpendable	863,562	84,672	948,234
Other Purposes	73,636	119,431	193,067
Unrestricted	811,416	163,636	975,052
Total Net Assets	6,345,189	1,351,632	7,696,821
Total Liabilities and Net Assets	\$7,947,348	\$1,814,757	\$9,762,105

The accompanying notes are an integral part of the financial statements.

Component Units

\$986
50,771
937,819
10,285

466
3,999

982,769
19,430

16,123
782

20,718
16,125
<hr/> \$2,060,273 <hr/>

\$409

14,226
31,439
85,504

71,333

123,835
1,271,000
<hr/> 1,597,746 <hr/>

16,967

142,740

69,376
171,947

61,497
462,527
<hr/> \$2,060,273 <hr/>

State of Idaho

Statement of Activities

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses			
FUNCTIONS				
Primary Government				
Governmental Activities				
General Government	\$634,262	\$306,363	\$55,541	\$3,124
Public Safety and Correction	266,036	26,757	16,296	545
Health and Human Services	1,676,706	81,516	1,100,985	
Education	1,385,448	9,673	220,171	1,882
Economic Development	629,499	215,735	341,548	65
Natural Resources	213,599	146,400	165,213	3,008
Interest Expense	21,130			
Total Governmental Activities	4,826,680	786,444	1,899,754	8,624
Business-Type Activities				
College and University	780,066	315,924	217,556	20,231
Unemployment Compensation	109,113	159,365	1,563	
Loan	719	9,135	10,783	
State Lottery	97,605	131,305		
Liquor Dispensary	93,204	107,967		
Correctional Industries	6,239	7,498		
Total Business-Type Activities	1,086,946	731,194	229,902	20,231
Total Primary Government	\$5,913,626	\$1,517,638	\$2,129,656	\$28,855
Component Units				
Idaho Housing and Finance Association	\$70,902	\$88,182		
College and University Foundation	51,018	29,734	\$49,333	
Petroleum Clean Water Trust	4,101	620		
Health Reinsurance	5,500	3,367		
Bond Bank Authority	1,093	1,087		
Life and Health Insurance Guaranty	686	323		
Total Component Units	\$133,300	\$123,313	\$49,333	

General Revenues

Sales Tax
Individual and Corporate Taxes
Fuel Tax
Other Taxes
Tobacco Settlement
Permanent Endowment Contributions
Unrestricted Investment Earnings
Payment from State of Idaho

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year, as Restated

Net Assets - End of Year

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total	Component Units
(\$269,234)		(\$269,234)	
(222,438)		(222,438)	
(494,205)		(494,205)	
(1,153,722)		(1,153,722)	
(72,151)		(72,151)	
101,022		101,022	
(21,130)		(21,130)	
(2,131,858)		(2,131,858)	
	(\$226,355)	(226,355)	
	51,815	51,815	
	19,199	19,199	
	33,700	33,700	
	14,763	14,763	
	1,259	1,259	
	(105,619)	(105,619)	
(2,131,858)	(105,619)	(2,237,477)	
			\$17,280
			28,049
			(3,481)
			(2,133)
			(6)
			(363)
			39,346
1,061,861		1,061,861	
1,428,996		1,428,996	
224,373		224,373	
182,112		182,112	
21,404		21,404	
			85
34,734		34,734	
			2,723
(243,751)	243,751		
2,709,729	243,751	2,953,480	2,808
577,871	138,132	716,003	42,154
5,767,318	1,213,500	6,980,818	420,373
\$6,345,189	\$1,351,632	\$7,696,821	\$462,527

State of Idaho
Balance Sheet
Governmental Funds
June 30, 2006
(dollars in thousands)

	General	Health and Welfare	Transportation	Public School Endowment
ASSETS				
Cash with Treasurer	\$554,321	\$43,274	\$47,563	\$3,891
Cash and Cash Equivalents	2		7	
Investments	76,301		29,788	636,183
Securities Lending Collateral	687,530			81,145
Accounts Receivable, Net	13,619	12,587	3,586	8,377
Taxes Receivable, Net	250,746	167	23,296	
Interfund Receivables	3,956		47	
Due from Other Entities	81	101,502	31,584	
Inventories and Prepaid Items	5,673	4,934	14,803	
Loans and Notes Receivable, Net			332	
Other Assets	63	15	211	1,227
Restricted Assets:				
Cash and Cash Equivalents	39,438	4,469	29,759	
Investments		2,116		
Total Assets	\$1,631,730	\$169,064	\$180,976	\$730,823
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$20,902	\$11,828	\$27,471	\$5,505
Payroll and Related Liabilities	8,227	5,369	3,100	
Medicaid Payable		135,774		
Interfund Payables	619	1,355	361	
Due to Other Entities	39,450		29,338	
Deferred Revenue	79,523	8,601	9,017	
Amounts Held in Trust for Others	286	2,636	118	
Obligations Under Securities Lending	687,530			81,145
Other Accrued Liabilities	9,144	1,193	6,343	
Total Liabilities	845,681	166,756	75,748	86,650
Fund Balances				
Reserved for:				
Bond Retirement				
Encumbrances	24,430	4,133	8,532	
Inventories and Prepaid Items	5,673	4,934	14,803	
Noncurrent Receivables	301			
Permanent Trusts				581,894
Other Purposes		3,607	415	
Unreserved, Reported in:				
General Fund	755,645			
Special Revenue Funds		(10,366)	81,478	
Permanent Funds				62,279
Total Fund Balances	786,049	2,308	105,228	644,173
Total Liabilities and Fund Balances	\$1,631,730	\$169,064	\$180,976	\$730,823

The accompanying notes are an integral part of the financial statements.

Pooled Endowment	Nonmajor Special Revenue	Total
\$167	\$172,184	\$821,400
	8,047	8,056
307,091	34,732	1,084,095
39,169		807,844
3,686	8,152	50,007
	2,718	276,927
	1,906	5,909
	30,755	163,922
	12,507	37,917
	7,248	7,580
592	561	2,669
	51,796	125,462
	11,782	13,898
\$350,705	\$342,388	\$3,405,686

\$2,646	\$14,532	\$82,884
	7,147	23,843
		135,774
	3,433	5,768
	4	68,792
	20,303	117,444
	2,734	5,774
39,169		807,844
	6,401	23,081
41,815	54,554	1,271,204

	13,939	13,939
	17,943	55,038
	12,507	37,917
	8,744	9,045
276,518	5,150	863,562
	32,717	36,739
		755,645
	196,834	267,946
32,372		94,651
308,890	287,834	2,134,482
\$350,705	\$342,388	\$3,405,686

**Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
June 30, 2006
(dollars in thousands)**

Total Fund Balances - Governmental Funds \$2,134,482

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:

Land	\$920,053	
Construction in Progress	649,558	
Infrastructure	2,436,961	
Historical Art and Collections	72	
Buildings and Improvements	597,979	
Improvements Other Than Buildings	43,395	
Machinery, Equipment, and Other	305,531	
Accumulated Depreciation	<u>(567,980)</u>	
Total Capital Assets		4,385,569

Some of the State's revenue will be collected after year-end but is not available soon enough to pay for the current period's expenditures and therefore is deferred in the funds. 90,852

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 107,828

Bond issue costs are reported as current expenditures in the funds. However, these costs are deferred on the Statement of Net Assets. 3,095

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of the following:

Capital Leases Payable	(13,650)	
Compensated Absences Payable	(119,149)	
Bonds and Notes Payable	(205,216)	
Accrued Interest on Bonds	(3,065)	
Claims and Judgments	(34,486)	
Other Long-Term Liabilities	<u>(1,071)</u>	
Total Long-Term Liabilities		<u>(376,637)</u>

Net Assets - Governmental Activities \$6,345,189

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

	General	Health and Welfare	Transportation	Public School Endowment
REVENUES				
Sales Tax	\$1,055,812			
Individual and Corporate Taxes	1,436,168			
Other Taxes	62,993	\$1,735	\$215,746	
Licenses, Permits, and Fees	16,813	3,832	113,828	
Sale of Goods and Services	64,287	75,101	4,685	\$46,399
Grants and Contributions	2,818	1,100,765	272,881	
Investment Income	36,655	319	2,701	62,769
Tobacco Settlement	21,253			
Other Income	22,903	2,249	1,194	
Total Revenues	2,719,702	1,184,001	611,035	109,168
EXPENDITURES				
Current:				
General Government	101,259			
Public Safety and Correction	204,196			
Health and Human Services	28,669	1,612,485		
Education	1,164,499			
Economic Development	19,093		165,417	
Natural Resources	36,543			13,708
Capital Outlay	78,311	3,480	326,734	
Intergovernmental Revenue Sharing	198,446	36,015	124,550	
Debt Service:				
Principal Retirement	226		1,167	
Interest and Other Charges	10,685			
Total Expenditures	1,841,927	1,651,980	617,868	13,708
Revenues Over (Under) Expenditures	877,775	(467,979)	(6,833)	95,460
OTHER FINANCING SOURCES (USES)				
Bonds and Notes Issued				
Discount on Bonds Issued				
Capital Lease Acquisitions				
Sale of Capital Assets	104	260	6,930	3,054
Transfers In	130,406	467,678		
Transfers Out	(759,776)	(198)	(15,796)	(23,087)
Total Other Financing Sources (Uses)	(629,266)	467,740	(8,866)	(20,033)
Net Change in Fund Balances	248,509	(239)	(15,699)	75,427
Fund Balances - Beginning of Year, as Restated	537,540	2,547	120,927	568,746
Fund Balances - End of Year	\$786,049	\$2,308	\$105,228	\$644,173

The accompanying notes are an integral part of the financial statements.

Pooled Endowment	Nonmajor Special Revenue	Total
	\$4,800	\$1,060,612
		1,436,168
	125,862	406,336
	122,427	256,900
\$22,415	51,334	264,221
	430,285	1,806,749
30,288	11,827	144,559
		21,253
	21,260	47,606
52,703	767,795	5,444,404

	46,186	147,445
	49,308	253,504
	267	1,641,421
	215,276	1,379,775
	174,304	358,814
5,298	133,235	188,784
	43,868	452,393
	66,403	425,414
	9,358	10,751
	10,051	20,736
5,298	748,256	4,879,037
47,405	19,539	565,367

	10,790	10,790
	(23)	(23)
	5,697	5,697
	6,845	17,193
4,600	38,092	640,776
(17,258)	(70,225)	(886,340)
(12,658)	(8,824)	(211,907)
34,747	10,715	353,460
274,143	277,119	1,781,022
\$308,890	\$287,834	\$2,134,482

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances -- Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006**

(dollars in thousands)

Net Change in Fund Balances - Governmental Funds		\$353,460
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense. Capital outlays exceeded depreciation expense in the current year by the following amount:		
Capital Outlay	\$274,510	
Depreciation Expense	<u>(51,766)</u>	222,744
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities but only proceeds from sales are reported in the governmental funds.		(14,424)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. In the current year deferred revenue decreased.		(2,981)
The issuance of long-term debt provides current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current year the following debt was incurred:		
Bonds and Notes	(10,790)	
Discount on Bonds Issued	23	
Capital Leases	<u>(5,697)</u>	(16,464)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year these amounts consisted of:		
Bond and Note Principal	9,930	
Bond Issue Costs	223	
Capital Leases	<u>821</u>	10,974
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease long-term liabilities reported in the Statement of Net Assets. In the current year these amounts consisted of:		
Accrued Interest and Amortization	(333)	
Compensated Absences	(7,632)	
Other Long-Term Liabilities	<u>2,055</u>	(5,910)
Internal service funds are reported separately from governmental funds in the fund statements. In the government-wide statements, internal service funds are included with governmental activities.		30,471
Change in Net Assets - Governmental Activities		<u>\$577,870</u>

State of Idaho

Statement of Net Assets
Proprietary Funds
June 30, 2006
(dollars in thousands)

	Business-Type Activities--Enterprise Funds			
	College and University	Unemployment Compensation	Loan	Nonmajor Enterprise Funds
ASSETS				
Current Assets				
Cash with Treasurer	\$22,911	\$9,805	\$33,555	\$16,079
Cash and Cash Equivalents	73,132	141,241		305
Investments	19,959			
Accounts Receivable, Net	48,576	46,034		1,188
Interfund Receivables	2,127			332
Inventories and Prepaid Items	6,955			10,493
Due from Component Unit	832			
Loans and Notes Receivable, Net	4,088		5,944	
Other Current Assets	753	574	3,039	202
Total Current Assets	179,333	197,654	42,538	28,599
Noncurrent Assets				
Restricted Cash and Cash Equivalents	2,856		41,166	37,328
Investments	105,773	81,039		
Restricted Investments	16,828		43,958	
Due from Component Unit	84,672			
Loans and Notes Receivable, Net	20,297		141,202	
Other Noncurrent Assets	8,577			
Capital Assets, Net	752,498		29,030	4,795
Total Noncurrent Assets	991,501	81,039	255,356	42,123
Total Assets	\$1,170,834	\$278,693	\$297,894	\$70,722
LIABILITIES				
Current Liabilities				
Accounts Payable	\$9,905	\$2,328		\$5,195
Payroll and Related Liabilities	34,537			405
Interfund Payables	3,386			
Due to Other Entities			\$11	4,807
Unearned Revenue	16,676		16,917	5
Amounts Held in Trust for Others	2,214			
Due to Component Unit	276			
Other Accrued Liabilities	9,327		310	2,503
Capital Leases Payable	422			
Capital Leases Payable to Component Unit	250			
Compensated Absences Payable	16,303			683
Bonds and Notes Payable	13,638		1,965	
Policy Claim Liabilities				
Total Current Liabilities	106,934	2,328	19,203	13,598
Noncurrent Liabilities				
Capital Leases Payable	1,287			
Capital Leases Payable to Component Unit	3,172			
Bonds and Notes Payable	309,914		10,075	
Policy Claim Liabilities				
Total Noncurrent Liabilities	314,373		10,075	
Total Liabilities	421,307	2,328	29,278	13,598
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	445,490		16,990	4,795
Restricted for:				
Claims and Judgments				
Permanent Trust - Expendable	73,058			
Permanent Trust - Nonexpendable	84,672			
Other Purposes			84,431	35,000
Unrestricted	146,307	276,365	167,195	17,329
Total Net Assets	749,527	276,365	268,616	57,124
Total Liabilities and Net Assets	\$1,170,834	\$278,693	\$297,894	\$70,722

The accompanying notes are an integral part of the financial statements.

Governmental Activities	
Total	Internal Service Funds
\$82,350	\$104,317
214,678	
19,959	
95,798	205
2,459	836
17,448	3,102
832	
10,032	
4,568	238
448,124	108,698
81,350	
186,812	33,690
60,786	
84,672	
161,499	
8,577	
786,323	16,428
1,370,019	50,118
\$1,818,143	\$158,816
\$17,428	\$547
34,942	373
3,386	50
4,818	
33,598	11,417
2,214	
276	
12,140	3
422	114
250	
16,986	690
15,603	89
	6,542
142,063	19,825
1,287	165
3,172	
319,989	3,666
	27,332
324,448	31,163
466,511	50,988
467,275	12,394
	39,495
73,058	
84,672	
119,431	
607,196	55,939
1,351,632	107,828
\$1,818,143	\$158,816

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(dollars in thousands)

	Business-Type Activities--Enterprise Funds			
	College and University	Unemployment Compensation	Loan	Nonmajor Enterprise Funds
OPERATING REVENUES				
Assessments		\$156,437		
Licenses, Permits, and Fees	\$102,146		\$450	\$2
Student Fees Pledged for Revenue Bonds	138,670			
Scholarship Allowances	(43,221)			
Sale of Goods and Services	28,228		520	245,984
Sale of Goods and Services Pledged for Revenue Bonds	66,000		876	
Grants and Contributions	177,209	1,563	10,783	
Grants and Contributions Pledged for Revenue Bonds	2,563			
Investment Income	171		4,155	
Other Income	7,685			103
Other Income Pledged for Revenue Bonds	1,979			
Total Operating Revenues	481,430	158,000	16,784	246,089
OPERATING EXPENSES				
Personnel Costs	477,994			12,375
Services and Supplies	188,050		212	83,458
Benefits, Awards, and Premiums	41,714	108,929		76,679
Depreciation	42,267		137	644
Other Expenses	13,302	184	23	3,285
Total Operating Expenses	763,327	109,113	372	176,441
Operating Income (Loss)	(281,897)	48,887	16,412	69,648
NONOPERATING REVENUES (EXPENSES)				
Gifts and Grants	37,784			
Investment Income	11,451	2,928	3,134	678
Investment Income Pledged for Revenue Bonds	2,636			
Interest Expense	(15,513)		(347)	
Intergovernmental Distributions				(20,607)
Gain (Loss) on Sale of Capital Assets	(1,226)			
Other Nonoperating Revenues (Expenses)	179			3
Total Nonoperating Revenues (Expenses)	35,311	2,928	2,787	(19,926)
Income (Loss) Before Contributions and Transfers	(246,586)	51,815	19,199	49,722
Capital Contributions	20,231			
Transfers In	277,542		5,600	
Transfers Out		(5,096)		(34,295)
Change in Net Assets	51,187	46,719	24,799	15,427
Total Net Assets - Beginning of Year, as Restated	698,340	229,646	243,817	41,697
Total Net Assets - End of Year	\$749,527	\$276,365	\$268,616	\$57,124

The accompanying notes are an integral part of the financial statements.

Governmental Activities	
Total	Internal Service Funds
\$156,437	
102,598	
138,670	
(43,221)	
274,732	\$210,334
66,876	
189,555	45
2,563	
4,326	
7,788	910
1,979	
902,303	211,289
490,369	11,918
271,720	16,546
227,322	154,314
43,048	1,475
16,794	2,640
1,049,253	186,893
(146,950)	24,396
37,784	
18,191	4,710
2,636	
(15,860)	(447)
(20,607)	
(1,226)	(2)
182	2
21,100	4,263
(125,850)	28,659
20,231	
283,142	1,830
(39,391)	(17)
138,132	30,472
1,213,500	77,356
\$1,351,632	\$107,828

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

	Business-Type	
	College and University	Unemployment Compensation
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Assessments		\$157,264
Receipts from Customers	\$292,006	
Receipts for Interfund Services		
Receipts from Grants and Contributions	178,274	1,563
Payments to Suppliers	(184,268)	
Payments to Employees	(484,702)	
Payments for Interfund Services		
Payments for Benefits, Awards, and Claims	(41,916)	(109,360)
Other Receipts (Payments)	(2,312)	(184)
Net Cash Provided (Used) by Operating Activities	(242,918)	49,283
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts, Grants, and Endowments Received	36,578	
Intergovernmental Distributions		
Transfers In	277,542	
Transfers Out		(5,096)
Interest Paid		
Other Receipts (Payments)	(333)	
Net Cash Provided (Used) by Noncapital Financing Activities	313,787	(5,096)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Grants and Contributions	10,408	
Bonds Issued		
Payment of Notes and Bonds	(12,048)	
Payment of Interest	(15,984)	
Capital Lease Payments		
Proceeds from Disposition of Capital Assets		
Acquisition and Construction of Capital Assets	(53,716)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(71,340)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest and Dividends	9,445	5,554
Purchase of Investments	(250,048)	(4,254)
Redemption of Investments	238,679	
Net Cash Provided (Used) by Investing Activities	(1,924)	1,300
Net Increase (Decrease) in Cash and Cash Equivalents	(2,395)	45,487
Beginning Cash, Cash Equivalents, and Cash with Treasurer, as Restated	101,294	105,559
Ending Cash, Cash Equivalents, and Cash with Treasurer	\$98,899	\$151,046
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	(\$281,897)	\$48,887
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	42,325	
Maintenance Costs Paid by Dept. of Public Works	1,864	
Net Changes in Assets and Liabilities:		
Accounts Receivable/Interfund Receivables	(2,342)	827
Inventories and Prepaid Items	298	
Notes Receivable	141	
Other Current Assets	999	
Accounts Payable/Interfund Payables	424	(431)
Unearned Revenue		
Compensated Absences	511	
Policy Claim Liabilities		
Other Accrued Liabilities	(5,241)	
Net Cash Provided (Used) by Operating Activities	(\$242,918)	\$49,283

Noncash Transactions (dollars in thousands):

Investments increased in fair value by \$4,421 for college and universities; decreased in fair value by \$2,631 for Unemployment Compensation, \$1,758 for the Loan fund, and \$1,105 for internal service funds. Capital assets were donated to college and universities in the amount of \$8,003 and acquired by notes payable in the amount of \$1,809 for the Loan fund and \$3,859 for internal service funds. Internal service funds acquired capital assets by capital lease in the amount of \$85 and disposed of capital assets at a loss of \$2.

The accompanying notes are an integral part of the financial statements.

Activities--Enterprise Funds			Governmental Activities
Loan	Nonmajor Enterprise Funds	Total	Internal Service Funds
		\$157,264	
\$28,008	\$245,782	565,796	\$628
499	20	519	210,713
10,783		190,620	49
(38,641)	(88,101)	(311,010)	(14,013)
	(13,014)	(497,716)	(12,196)
(13)	(91)	(104)	(3,729)
	(77,679)	(228,955)	(157,703)
(23)		(2,519)	
613	66,917	(126,105)	23,749
		36,578	
	(17,360)	(17,360)	
5,600		283,142	1,830
	(34,295)	(39,391)	(17)
(356)		(356)	(440)
		(333)	
5,244	(51,655)	262,280	1,373
		10,408	
5,340		5,340	
(6,460)		(18,508)	(104)
		(15,984)	
	(51)	(51)	(460)
	3	3	2
	(359)	(54,075)	(348)
(1,120)	(407)	(72,867)	(910)
4,581	678	20,258	5,802
(45,716)		(300,018)	(3,391)
		238,679	
(41,135)	678	(41,081)	2,411
(36,398)	15,533	22,227	26,623
111,119	38,179	356,151	77,694
\$74,721	\$53,712	\$378,378	\$104,317
\$16,412	\$69,648	(\$146,950)	\$24,396
137	644	43,106	1,475
		1,864	
	(271)	(1,786)	(474)
	(1,975)	(1,677)	1,105
(32,738)		(32,597)	
(115)	39	923	
	484	477	339
16,917	(14)	16,903	575
	(147)	364	51
			(3,389)
	(1,491)	(6,732)	(329)
\$613	\$66,917	(\$126,105)	\$23,749

*State of Idaho***Statement of Fiduciary Net Assets****Fiduciary Funds****June 30, 2006***(dollars in thousands)*

	Pension Trust	Investment Trust	College Savings Private-Purpose Trust	Agency
ASSETS				
Cash with Treasurer	\$2,187			\$30,779
Cash and Cash Equivalents	1,633		\$154	9,251
Investments:				
Pooled Short Term	552,175	\$393,605	5,477	
Fixed Income Investments	2,474,611	132,814		192,311
Marketable Securities	6,270,546			
Mutual Funds and Private Equities	524,252		71,902	
Mortgages and Real Estate	455,004	538,665		
Other Investments			13,473	6,568
Securities Lending Collateral		613,927		
Receivables:				
Investments Sold	923,680		6	
Contributions	4,666			
Interest and Dividends	45,217	8,159	22	78
Interfund Receivables	1,572			
Other Receivables	142		18	
Other Assets	31,647			
Capital Assets, Net	2,851			
Total Assets	11,290,183	1,687,170	91,052	\$238,987
LIABILITIES				
Accounts Payable	293		49	
Payroll and Related Liabilities				6,376
Interfund Payables	1,572			
Due to Other Entities				661
Amounts Held in Trust for Others				228,614
Obligations Under Securities Lending		613,927		
Investments Purchased	1,354,246		34	
Other Accrued Liabilities	8,148	3,991		3,336
Total Liabilities	1,364,259	617,918	83	\$238,987
NET ASSETS				
Held in Trust for:				
Employee Pension Benefits	9,726,761			
Postemployment Healthcare Benefits	199,163			
External Investment Pool Participants		1,069,252		
Trust Beneficiaries			90,969	
Total Net Assets	\$9,925,924	\$1,069,252	\$90,969	

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

	Pension Trust	Investment Trust	College Savings Private-Purpose Trust
ADDITIONS			
Contributions:			
Member	\$180,497		
Employer	280,418		
Transfers In from Other Plans	6,246		
Participant Deposits		\$2,199,724	\$25,195
Total Contributions	467,161	2,199,724	25,195
Investment Income:			
Net Increase (Decrease) in Fair Value of Investments	803,441	(44,428)	1,374
Interest, Dividends, and Other	270,192	43,678	3,890
Securities Lending Income		689	
Less Investment Expense:			
Investment Activity Expense	(41,316)	(439)	
Securities Lending Expense		(190)	
Net Investment Income	1,032,317	(690)	5,264
Miscellaneous Income	1,666		
Total Additions	1,501,144	2,199,034	30,459
DEDUCTIONS			
Benefits and Refunds Paid to Plan Members	433,074		
Transfers Out to Other Plans	4,041		
Administrative Expense	7,395		473
Earnings Distribution		37,146	
Participant Withdrawals		2,247,219	8,184
Total Deductions	444,510	2,284,365	8,657
Change in Net Assets Held in Trust for:			
Employee Pension Benefits	1,040,924		
Employee Postemployment Healthcare Benefits	15,710		
External Investment Pool Participants		(85,331)	
Trust Beneficiaries			21,802
Net Assets - Beginning of Year	8,869,290	1,154,583	69,167
Net Assets - End of Year	\$9,925,924	\$1,069,252	\$90,969

State of Idaho

Statement of Net Assets

Component Units

June 30, 2006

(dollars in thousands)

	Idaho Housing and Finance Association	College and University Foundation	Petroleum Clean Water Trust	Health Reinsurance
ASSETS				
Current Assets				
Cash with Treasurer			\$986	
Cash and Cash Equivalents	\$26,964	\$19,789	2,328	\$873
Investments	214,213	12,135	4,279	
Accounts Receivable, Net		9,829	356	100
Inventories and Prepaid Items		10		456
Due from Primary Government		548		
Loans and Notes Receivable, Net	217,065	53		
Other Current Assets	14,194	1,435		
Total Current Assets	472,436	43,799	7,949	1,429
Noncurrent Assets				
Restricted Cash and Cash Equivalents		16,123		
Investments	379,951	281,415	26,076	12,540
Restricted Investments		782		
Due from Primary Government		3,451		
Loans and Notes Receivable, Net	736,821	871		
Other Noncurrent Assets		2,096		
Capital Assets, Net	6,228	30,615		
Total Noncurrent Assets	1,123,000	335,353	26,076	12,540
Total Assets	\$1,595,436	\$379,152	\$34,025	\$13,969
LIABILITIES				
Current Liabilities				
Accounts Payable		\$335		\$63
Unearned Revenue		2,974		11,243
Amounts Held in Trust for Others	\$8,861	13,788		
Due to Primary Government		832		
Other Accrued Liabilities	69,311	48	\$90	456
Bonds and Notes Payable	114,240	4,285		
Policy Claim Liabilities			2,136	2,207
Total Current Liabilities	192,412	22,262	2,226	13,969
Noncurrent Liabilities				
Amounts Held in Trust for Others		8,790		
Due to Primary Government		84,672		
Bonds and Notes Payable	1,215,400	23,015		
Policy Claim Liabilities			5,048	
Total Noncurrent Liabilities	1,215,400	116,477	5,048	
Total Liabilities	1,407,812	138,739	7,274	13,969
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	6,228	10,739		
Restricted for:				
Debt Service	142,740			
Permanent Trust - Expendable		69,376		
Permanent Trust - Nonexpendable		171,947		
Unrestricted	38,656	(11,649)	26,751	
Total Net Assets	187,624	240,413	26,751	
Total Liabilities and Net Assets	\$1,595,436	\$379,152	\$34,025	\$13,969

The accompanying notes are an integral part of the financial statements.

Life and Health		
Bond Bank Authority	Insurance Guaranty	Total
		\$986
	\$817	50,771
\$1	7,209	237,837
		10,285
		466
		548
960		218,078
1,669	36	17,334
2,630	8,062	536,305

		16,123
		699,982
		782
		3,451
26,999		764,691
		2,096
		36,843
26,999		1,523,968
\$29,629	\$8,062	\$2,060,273

	\$11	\$409
	9	14,226
		22,649
		832
\$1,089	339	71,333
960		119,485
	7	4,350
2,049	366	233,284

		8,790
		84,672
27,537		1,265,952
		5,048
27,537		1,364,462
29,586	366	1,597,746

		16,967
		142,740
		69,376
		171,947
43	7,696	61,497
43	7,696	462,527
\$29,629	\$8,062	\$2,060,273

State of Idaho

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Component Units

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

	Idaho Housing and Finance Association	College and University Foundation	Petroleum Clean Water Trust	Health Reinsurance
OPERATING REVENUES				
Licenses, Permits, and Fees	\$8,233		\$99	
Sale of Goods and Services		\$70		\$3,179
Grants and Contributions		49,333		
Investment Income	78,064	2,412		
Other Income	1,730	1,054	2	
Total Operating Revenues	88,027	52,869	101	3,179
OPERATING EXPENSES				
Personnel Costs	6,433	1,341		
Services and Supplies	3,794	2,549	1,383	280
Benefits, Awards, and Premiums	715	45,565	2,718	5,219
Interest Expense	59,414	21		
Depreciation	475	326		
Other Expenses	71	223		
Total Operating Expenses	70,902	50,025	4,101	5,499
Operating Income (Loss)	17,125	2,844	(4,000)	(2,320)
NONOPERATING REVENUES (EXPENSES)				
Payment from State of Idaho		590		2,133
Investment Income		13,707	519	188
Interest Expense		(993)		(1)
Gain (Loss) on Sale of Capital Assets		2,552		
Other Nonoperating Revenues (Expenses)	155	9,939		
Total Nonoperating Revenues (Expenses)	155	25,795	519	2,320
Income (Loss) Before Contributions and Transfers	17,280	28,639	(3,481)	
Contributions to Permanent Endowments		85		
Change in Net Assets	17,280	28,724	(3,481)	
Total Net Assets - Beginning of Year, as Restated	170,344	211,689	30,232	
Total Net Assets - End of Year	\$187,624	\$240,413	\$26,751	\$0

The accompanying notes are an integral part of the financial statements.

Life and Health		
Bond Bank Authority	Insurance Guaranty	Total
		\$8,332
	\$110	3,359
		49,333
\$1,087		81,563
	30	2,816
1,087	140	145,403
	84	7,858
	93	8,099
	63	54,280
1,093		60,528
		801
	446	740
1,093	686	132,306
(6)	(546)	13,097
		2,723
	183	14,597
		(994)
		2,552
		10,094
	183	28,972
(6)	(363)	42,069
		85
(6)	(363)	42,154
49	8,059	420,373
\$43	\$7,696	\$462,527

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

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**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Idaho have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting principles.

In November 2003 the GASB issued Statement No. 42, *Impairment of Capital Assets and Insurance Recovery*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The State implemented this Statement during the fiscal year ended June 30, 2006.

In June 2005 the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are terminated. The State implemented this Statement during the fiscal year ended June 30, 2006.

The financial statements are presented as of and for the year ended June 30, 2006, except for the Idaho State Bar, the Idaho Dairy Products Commission (nonmajor special revenue fund), the Petroleum Clean Water Trust Fund, the Idaho Life and Health Insurance Guaranty Association, the Idaho Individual High Risk Reinsurance Pool, and the Idaho Small Employer Health Reinsurance Program (discretely presented component units), whose statements are as of and for the fiscal year ended December 31, 2005; and the Idaho Potato Commission (nonmajor special revenue fund) whose statements are as of and for the year ended August 31, 2006.

A. Reporting Entity

The State of Idaho is governed under the *Idaho Constitution* of 1890, as amended. The legislative power is vested in a 35-member Senate and a 70-member House of Representatives; executive power is vested in the Governor, Lieutenant Governor, Secretary of State, State Controller, State Treasurer, Attorney General, and Superintendent of Public Instruction; and the judicial power is vested in the Idaho Supreme Court, the Idaho Court of Appeals, and district courts.

For financial reporting purposes, the State of Idaho's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, agencies, boards, commissions,

colleges and universities, and authorities that are considered an integral part of the State. Component units are legally separate organizations for which the State is financially accountable or other organizations for which the nature and significance of their relationships with the State are such that exclusion would cause the financial statements to be misleading or incomplete. Financial accountability exists if the State appoints a voting majority of the organization's governing board and either 1) is able to impose its will on the organization or 2) a potential exists for the organization to provide financial benefits to, or impose financial burdens on, the State.

For those entities in which the State does not appoint a voting majority of the governing body, inclusion of the reporting entity is required if an organization is fiscally dependent on the State. Component units also include legally separate and tax-exempt organizations whose economic resources directly benefit the State, the State is entitled to or has the ability to access those resources, and the resources are significant to the State.

Blended Component Unit

Blended component units are legally separate from the State but are so intertwined with the State that they are, in substance, the same as the State. The component units are reported as part of the State and blended into the appropriate funds.

The *Idaho State Building Authority* was created by *Idaho Code*, Section 67-6403, to finance and construct facilities, such as office buildings and parking garages, to be used and leased by the State. The Authority relies on the State's leasing agreements, resulting in a significant financial benefit/burden relationship; and the Authority provides services entirely to the State of Idaho. The Idaho State Building Authority is blended as a nonmajor special revenue fund.

Discretely Presented Component Units

Discretely presented component units are legally separate from the State but are financially accountable to the State, or their relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. These component units are reported in a separate column to emphasize that they are legally separate from the primary government.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

The *Idaho Housing and Finance Association* was created by *Idaho Code*, Section 67-6202, for the purpose of building and rehabilitating residential housing for persons of low income and for facilitating the issuance of bonds or notes to finance projects for transportation infrastructure of the primary government. The Association is authorized to enter into agreements with the Idaho Transportation Department to facilitate transportation projects, including issuing bonds, thereby creating a financial benefit/burden relationship. The Governor appoints the Association board members. The Association is presented discretely as an enterprise fund.

The *College and University Foundation* fund includes the foundations of Boise State University, Eastern Idaho Technical College, Idaho State University, Lewis-Clark State College, and the University of Idaho. The foundations were established for the purpose of soliciting donations and to hold and manage invested donations for the primary benefit of the respective colleges and universities. The College and University Foundation fund is presented discretely as an enterprise fund.

The *Petroleum Clean Water Trust Fund* was created by *Idaho Code*, Section 41-4905, to provide pollution liability insurance for eligible owners and operators of petroleum storage tanks. The Fund is subject to the direction and supervision of the manager of the State Insurance Fund. The State approves, and may modify, the Fund's annual budget and thereby has the ability to impose its will on the Fund. The Fund is presented discretely as an enterprise fund.

The *Life and Health Insurance Guaranty Association* is a nonprofit organization authorized by the *Idaho Life and Health Insurance Guaranty Association Act* of 1977, *Idaho Code*, Section 41-4306. The Act was passed to provide a mechanism for the payment of covered claims under certain insurance policies when an insurer becomes insolvent. All insurance companies that sell direct and supplemental life, disability policies, and annuity contracts are required to be members of the Association as a condition of their authority to transact business in Idaho. Member insurers select the board members; however, the director of the Department of Insurance has veto power and may dismiss management at will. Insurers may offset assessments against their premium taxes (thereby reducing tax revenues to the State). This imposes a potential direct financial burden on the State. The Association is presented discretely as an enterprise fund.

The *Idaho Bond Bank Authority* was created by *Idaho Code*, Section 67-8703, authorizing the Authority to issue bonds to make loans to municipalities for

infrastructure. The Authority can obtain better credit ratings, interest rates, and lower underwriting costs than municipalities can achieve individually. The Authority is administered by a five member board, of which two members are appointed by the governor and three are elected officials. The Authority can obligate sales tax revenue as a source of payment or security for bonds issued, which imposes a potential direct financial burden on the State. The Authority is presented discretely as an enterprise fund.

The Health Reinsurance fund includes the *Idaho Individual High Risk Reinsurance Pool* created by *Idaho Code*, Section 41-5502; and the *Idaho Small Employer Health Reinsurance Program* created by *Idaho Code*, Section 41-4711. Both the Pool and the Program are intended to promote the availability of health insurance coverage, regardless of health or claims experience, by providing a safety net to carriers in the form of a risk pool and reinsurance mechanism and to facilitate the guaranteed issue of standardized state approved health benefit plans. Both the Pool and Program operate subject to the supervision and control of the same ten-member board, a majority of which is appointed by the director of the Department of Insurance. Due to the level of authorized oversight of the Department of Insurance, the State has the ability to impose its will on these programs. The Pool is partially funded through state premium tax revenue creating a financial burden for the State. The assets of the Pool and Program are restricted for specific purposes and are not subject to appropriation by the Idaho Legislature for other uses. The Pool and the Program are presented discretely together as an enterprise fund.

Financial statements for the component units may be obtained as follows:

Idaho State Building Authority
960 Broadway Avenue, Suite 500
Boise, ID 83706

Idaho Housing and Finance Association
565 W. Myrtle
P.O. Box 7899
Boise, ID 83707-1899

Boise State University Foundation, Inc.
2225 W. University Drive
MS 1030
Boise, ID 83725

Eastern Idaho Technical College Foundation, Inc.
1600 S. 25th E.
Idaho Falls, ID 83404

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

Idaho State University Foundation, Inc.
921 S. 8th Avenue
Campus Box 8050
Pocatello, ID 83209

Lewis-Clark State College Foundation, Inc.
Lewis-Clark State College
Controller's Office
500 8th Avenue
Lewiston, ID 83501

University of Idaho Foundation, Inc.
1106 Blake Avenue
P.O. Box 443150
Moscow, ID 83844-3150

Idaho Petroleum Clean Water Trust Fund
1215 W. State Street
P.O. Box 83720
Boise, ID 83720-0044

Idaho Life and Health Insurance Guaranty Association
4700 N. Cloverdale Road #204
Boise, ID 83713-1068

Idaho Individual High Risk Reinsurance Pool
Idaho Small Employer Health Reinsurance Program
P.O. Box 7186
Boise, ID 83707

Idaho Bond Bank Authority
700 W. Jefferson, Room 102
P.O. Box 83720
Boise, ID 83720-0091

Related Organizations

The *State Insurance Fund*, created by *Idaho Code*, Section 72-901, and the *Health Facilities Authority*, created by *Idaho Code*, Section 39-1444, are related organizations for which the State is not financially accountable although the State appoints a voting majority of the organizations' boards. The financial reports of these organizations are excluded from the State's financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Statements

The Statement of Net Assets and Statement of Activities report information on nonfiduciary activities of the primary government and its component units. Primary government activities distinguish between governmental and business-type activities. Governmental activities

generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Internal service funds are included with governmental activities in the government-wide statements and are included with the proprietary funds in the fund statements.

The *Statement of Net Assets* presents the State's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are displayed in the following three categories:

Invested in Capital Assets, Net of Related Debt, consists of capital assets net of accumulated depreciation and reduced by outstanding related debt.

Restricted Net Assets result when third parties, constitutional provisions, or enabling legislation impose constraints on net asset use. The State does not have a policy regarding the preferred first usage of unrestricted or restricted net assets. Expense allocation decisions are made on a program-by-program basis when both restricted and unrestricted net assets are available. Restricted net asset balances will fluctuate as related accounting transactions occur.

Unrestricted Net Assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets may have constraints or designations placed upon them by management, which can be unilaterally removed.

The *Statement of Activities* demonstrates the degree to which the direct expenses of governmental functions, business-type activities, and component units are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific governmental function, business-type activity, or component unit. Revenues are broken out by program and general designations. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, activity, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Program revenues display the extent to which programs are self-funded. The arithmetic difference between direct expenses and program revenue displays the net cost of the function to be financed from the State's general revenues. Taxes and other revenue sources that are not attributable to specific programs are shown as general revenues.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

State agencies share the cost of some centralized services. These administrative overhead charges are reported as direct program expenses of each of the various functions. Certain indirect costs are paid by the general government function and are not allocated to the other governmental functions.

To better reflect the break-even emphasis of the internal service funds, the net income or loss from business conducted with primary government customers is eliminated. Eliminations are made to the operating expenses or revenues of the participating functions.

Fund Statements

Separate fund financial statements are presented for the governmental, proprietary, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. The emphasis in the fund statements is on major funds. Major governmental and business-type funds are reported as separate columns in the fund statements. The remaining governmental and business-type funds are considered to be nonmajor funds and are consolidated in a nonmajor funds column. The nonmajor funds are displayed individually in combining statements.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for services that include general government, public safety and correction, health and human services, education, economic development, and natural resources. The General Fund includes all financial resources of the general government except those required to be accounted for in another fund.

The *Health and Welfare* fund accounts for resources used for public assistance, medical care, foster care, and other relief for eligible citizens of Idaho.

The *Transportation* fund accounts for resources used for administration, construction, and maintenance of the state highway and aviation systems.

The *Public School* and *Pooled Endowment* funds manage and invest the revenues generated from the sale or lease of lands granted from the federal government under the *Idaho Admission Act*.

The State reports the following major proprietary funds:

The *College and University* fund accounts for resources used by the State's system of higher education.

The *Unemployment Compensation* fund accounts for resources used to provide unemployment benefits to eligible unemployed workers.

The *Loan* fund accounts for loans to Idaho municipalities to make improvements to wastewater and drinking water systems.

Additionally, the State reports the following fund types:

Governmental Fund Types

Special revenue funds account for specific revenue sources that are restricted to expenditures for specified purposes.

Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support certain state programs.

Proprietary Fund Types

Enterprise funds account for governmental operations that function in a manner similar to private business enterprises. The intent is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal service funds account for a variety of independent operations that provide goods or services to other state agencies or governmental units on a cost-reimbursement basis. Internal service fund activities of the State include property, liability, and other types of insurance; data processing services; and other general services such as facilities rentals.

Operating and nonoperating revenues and expenses are presented separately on the operating statements. Operating transactions occur if they directly result from the provision of goods or services to customers, or are otherwise directly related to the principal and usual activity of the fund. All other revenues and expenses are reported as nonoperating.

Fiduciary Fund Types

Pension trust funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other employee benefits.

Investment trust funds account for external participants' investments with the State's Local

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

Government Investment Pool and Diversified Bond Fund.

Agency funds account for resources collected or held by the State, acting in a custodial capacity, for distribution to other governmental units or designated beneficiaries. These resources include deposits of securities by banks and insurance companies as well as employee payroll deductions.

The *private-purpose trust fund* accounts for resources legally held in trust by the IDEal Idaho College Savings Program; the principal and interest benefit individuals. Complete financial statements may be obtained by writing to IDEal College Savings Program, P.O. Box 55254, Boston, MA 02205-8675.

Reconciling Government-Wide Statements to the Fund Statements

The governmental fund statements include a reconciliation between the fund statements and the government-wide statements. Differences that make a reconciliation necessary include the two differing measurement focuses and bases of accounting between the statements and the inclusion of internal service funds with governmental activities on the government-wide statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary (except agency) fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Agency funds report only assets and liabilities using the accrual basis of accounting; they have no measurement focus.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Significant revenue sources

susceptible to accrual include sales tax, individual and corporate taxes, motor fuel taxes, and federal grants. Licenses, permits, fees, and other miscellaneous revenues, which are derived from an underlying transaction, are recognized when received since they are normally only measurable at that time. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded when paid.

Reimbursements are eliminated in the financial statements to reduce the grossing-up effect of internal transactions. Reimbursements are repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements include federal grant pass-throughs from one state agency to another and the allocation of central human resource costs to all agencies.

The State reports only enterprise funds as business-type activities. The business-type activities follow all current GASB pronouncements. They also follow all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

D. Assets and Liabilities

Cash with Treasurer

Cash balances of most funds are deposited with the State Treasurer's Office. Balances not required to meet immediate needs are pooled in an internal investment pool, which is reported as Cash with Treasurer. *Idaho Code*, Sections 67-1210 and 67-1210A, governs investment policies of the State Treasurer.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of bank accounts; petty cash; cash in transit; money markets; FDIC insured nonnegotiable certificates of deposit; and short-term, highly-liquid investments with a maturity of three months or less from the purchase date.

Investments

The State Treasurer's Office (STO) and other administrative bodies manage investments as determined by state law. The STO manages investments of state funds and funds of other qualified entities within the State in accordance with *Idaho Code*, Sections 67-1201 through 67-1222. See Note 2 for more information.

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

The State reports most investments at fair value based on published market prices and quotations from investment brokers. Investments held in lieu of surety deposits, which are not held for investment purposes, are carried at historical cost in the State's agency funds. Certain entities disclosed in Note 2 report money market investments and other highly liquid investments with a remaining maturity of one year or less at the time of purchase using amortized cost.

The Public Employee Retirement System of Idaho, the Judges' Retirement fund, and the endowment funds are permitted to make investments in accordance with the *Idaho Uniform Prudent Investor Act*, Sections 68-501 through 68-514, of the *Idaho Code*.

Securities Lending Collateral

Security lending agreements are transfers of securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. Securities lending collateral is reported at fair market value. See Note 2 for more information.

Receivables, Net

Receivables in the General Fund consist primarily of income and sales taxes. Special revenue fund receivables consist primarily of health and transportation federal grants and gas taxes. Proprietary fund receivables consist mainly of unemployment assessments, student tuition and fees, and federal grants. Fiduciary fund receivables consist primarily of investments sold in the pension trust funds. The receivables are disaggregated on the financial statements.

Internal Balances

Interfund receivables and payables consist of unpaid balances for goods and services provided by one fund to another. Interfund goods and services provided are reported as revenues in seller funds and expenditures or expenses in purchaser funds. These balances are generally short-term receivables and payables. See Note 4 for interfund schedules and those receivables not expected to be collected within one year. Interfund receivables and payables balances and activity have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities, which are shown as Internal Balances.

Inventories and Prepaid Items

Inventory consists of materials and supplies that will be consumed within a year. Governmental and proprietary fund-type inventories of supplies and materials are valued at cost, which approximates market, generally using the first-in, first-out method. The consumption method of inventory accounting is used. Prepaid expenses represent amounts paid in the current period for services that will benefit future periods. Prepaids are accounted for using the consumption method.

Other Assets

Other assets include interest receivable and other miscellaneous items.

Capital Assets, Net

Capital assets include land, buildings and improvements, construction in progress, historical art and collections, improvements other than buildings, machinery and equipment, all infrastructure regardless of acquisition date, and other capital assets. Assets with a cost of \$5,000 or more and a useful life of more than one year are capitalized. The costs of normal repairs and maintenance that do not add to the asset's utility or materially extend an asset's useful life are not capitalized. Interest expense related to capital asset construction is capitalized for business-type activities.

Capital assets are recorded at cost or estimated historical cost, if actual cost is not available. In cases where historical cost is not available, assets are valued using comparables indexed forward or backward with the consumer price index. Donated capital assets are recorded at estimated fair value at the date of donation. Endowment land originally granted to the State by the federal government is valued at one dollar per acre. For more information regarding endowment land, refer to donor-restricted investments in Note 2.

All capital assets, with the exception of roads, right-of-ways, land, construction in progress, historical art and collections, and certain intangible or amortized assets are depreciated. For all depreciable major asset classes, depreciation is calculated on a straight-line basis over their estimated useful lives, as follows:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 50
Improvements Other Than Buildings	5 - 50
Machinery, Equipment, and Other	3 - 40
Bridges	75

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

Roads and right-of-ways are not depreciated but rather are accounted for under the modified approach. The modified approach recognizes that this class of infrastructure will be indefinitely maintained at a certain condition level and as such does not have a limited lifespan. Costs to maintain the roads at the set condition levels are expensed rather than capitalized, unless the road's service potential is increased or additions are made. The State's Transportation Department has the responsibility for determining and assessing the condition levels, maintaining the inventory of roads, and making annual estimates of costs to maintain the roads. Further information regarding infrastructure can be found in the Required Supplementary Information.

Historical art and collections are not capitalized unless those collections were already capitalized on June 30, 1999. Historical art and collections include historical artifacts, documents, rare books, paintings, portraits, State Capitol related artifacts, furnishings, films, statues, and monuments. Historical art and collections are on public display, preserved and protected, and are used in the furtherance of historical education or are involved in advancement of artistic or historical research. If sold, the proceeds are used to acquire other items for collection.

Payables

Payables in the General Fund consist primarily of sales taxes due to local governments. Payables in the special revenue funds relate primarily to public assistance—the largest being Medicaid, and fuel taxes to be distributed to local governments. Proprietary fund payables consist mostly of payroll liabilities, vendor obligations, and liquor sales distributions to local governments. The pension trust fund payable is comprised primarily of investments purchased by the Public Employee Retirement System of Idaho. Payables in agency funds relate to amounts held in a custodial capacity. All fund types have generic vendor payables.

Unearned/Deferred Revenue

Unearned revenue is recorded when cash is received prior to being earned. In the governmental fund statements, deferred revenue includes unearned revenue in addition to revenue that is earned but not available.

Amounts Held in Trust for Others

Amounts held in trust for others consist of cash or other assets held for an individual or entity until certain conditions of an agreement are met, at which time the asset is generally returned to the owner. Occasionally,

the owner may default on the conditions and the asset held in trust becomes the property of the State and revenue is recorded at that time.

Obligations Under Securities Lending

Obligations under securities lending consist of the collateral that has been received from borrowers for lent securities. The State has an obligation to return the collateral when the borrower returns the securities to the State. See Note 2 for more information.

Other Accrued Liabilities

Other accrued liabilities primarily consist of interest payable, unclaimed property, and other accrued liabilities.

Long-Term Liabilities

Government-wide and proprietary financial statements report long-term obligations as liabilities, with the portion payable within twelve months designated separately from the portion payable in more than twelve months. Long-term liabilities include the following:

Capital Leases Payable consists of lease contracts that transfer substantially all of the benefits and risks of ownership of property to the State.

Compensated Absences Payable includes vacation and compensatory time earned by employees but not paid and retirees' unused sick leave to be used for the acquisition of health insurance.

Bonds and Notes Payable consists of notes and bonds issued for the construction or acquisition of facilities and for funding various projects. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the loan. See Note 12 for further explanation.

Policy Claim Liabilities includes amounts for probable claims that have been incurred and the amount of the loss has been reasonably estimated.

Claims and Judgments are payables on behalf of the State and its agencies for various legal proceedings and claims.

Other Long-Term Liabilities consists mainly of a net pension obligation.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

E. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. The governmental fund equity is called fund balance, while the government-wide, proprietary, and fiduciary fund equity is called net assets. Reservations of fund balance and restricted net assets identify net assets that are not available for appropriation for expenditure or are legally segregated for a specific future use.

F. Newly Issued Accounting Pronouncements

In April 2004 the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes requirements for reporting postemployment benefits other than pensions and provides users with information

to assess the funded status of the plan. Management has not yet determined the impact this standard will have on the State's financial statements. The requirements of this Statement are effective for the fiscal year ending June 30, 2007.

In June 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs). This Statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities. The State has consulted with an actuarial firm regarding this new standard. Management has not yet determined the amount of the liability, if any, as a result of the new standard. The requirements of this Statement are effective for the fiscal year ending June 30, 2008.

NOTE 2. DEPOSITS AND INVESTMENTS

A. Deposits

Cash and cash equivalents are deposited with various financial institutions and are carried at cost. Legal provisions regarding deposits are found throughout *Idaho Code*, Title 67. The State Treasurer's Office (STO) acts as the State's bank, receiving and disbursing all monies except for the following: the Idaho Life and Health Guaranty Association, the Idaho Housing and Finance Association, the Idaho Individual High Risk Reinsurance Pool, the Idaho Small Employer Health Reinsurance Program, the college and university foundations, the Idaho State Building Authority, some of the endowment fund accounts, the State Bar, the Potato Commission, the Dairy Products Commission, the Wheat Commission, some of the colleges and universities' accounts, and some of the Public Employee Retirement System of Idaho accounts. In accordance with *Idaho*

Code, Section 67-1210, the STO invests cash not needed to meet immediate obligations in various types of investments. Interest received on the Idle Fund's investments is paid into the General Fund, unless Idaho statute requires allocation of interest to specific funds.

Custodial credit risk is the risk that in the event of a financial institution failure, the State's deposits may not be returned. The State's policy for managing custodial credit risk can be found in *Idaho Code*, Section 67-2739. The STO designates which financial institutions are qualified as state depositories. The amount of state funds above the total covered by federal insurance that is deposited with a qualified institution may not exceed the total of that depository's capital and surplus. Designated depositories must file an annual affidavit showing the amount of the financial institution's capital stock and surplus.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Custodial Credit Risk at June 30, 2006

(dollars in thousands)

	Governmental and Business- Type Activities	Fiduciary Funds	Discretely Presented Component Units
Bank Value of Deposits	\$1,335,577	\$38,225	\$67,362
Uninsured and Uncollateralized Deposits	8,357	3,740	21,387
Uninsured Deposits Collateralized with Securities Held by the Pledging Financial Institution	17,570		
Uninsured Deposits Collateralized with Securities Held by the Pledging Financial Institution's Trust Department or Agent, but not in the State's Name			4,134

B. Investments

General Investment Policies

Idaho Code, Section 68-502, stipulates the standard to be followed by state investment personnel is the *Idaho Uniform Prudent Investor Act*. The primary focus of the Act is preservation of capital and avoidance of speculative transactions through exercise of reasonable care, skill, and caution. The goal is to provide a reasonable return while following specific objectives of various trusts. The Act may be expanded, restricted, eliminated, or altered by provisions of Idaho statute or a trust.

The STO invests idle moneys, other than the public endowment funds, in accordance with *Idaho Code*, Sections 67-1210, 67-1210A, and 67-2739. The STO Investment Division handles short-term investing and outsources long-term investing.

Some investments are made directly by an agency rather than by the STO. Only a few agencies are authorized to make such investments and then only for specific programs. Investments are valued in accordance with GASB Statement No. 31, as described in Note 1.

Types of Investments

Idaho Code, Section 67-1210, authorizes the Treasurer's pooled Idle Fund and agencies with investment authority to make direct investments in the following types of investments:

- Obligations issued under the Farm Credit Act of 1971, the Federal Home Loan Bank Board, the Federal National Mortgage Association, and the Federal Home Loan Bank
 - Obligations of Idaho public corporations
 - Repurchase agreements covered by any legal investment for the State
 - Tax and revenue anticipation instruments of the State or Idaho taxing districts
 - Time deposit and savings accounts in state depositories, state and federal loan associations, or state and federal credit unions within the boundaries of Idaho
 - Revenue bonds of Idaho higher education institutions
 - Money market funds whose portfolios consist of investments specified in this section must be denominated in U.S. dollars
- Idaho Code*, Section 67-1210A, authorizes the STO to enter into the following additional types of transactions:
- Prime banker's acceptances and prime commercial paper
 - Sale and repurchase of call options on securities owned by the STO or the Local Government Investment Pool
 - Securities lending agreements
 - Corporate bonds, notes, and debentures of any U.S. company with at least an A rating by a nationally
 - U.S. government obligations, which pledge the full faith and credit of the U.S. government
 - General obligation or revenue bonds of the State or any Idaho county, city, or taxing district

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

recognized statistical rating organization such as Standard & Poor's or Moody's

The Endowment Fund Investment Board (EFIB) manages investment of Idaho's two permanent funds, the Public School Endowment fund and the Pooled Endowment fund. *Idaho Code*, Section 57-720, gives the EFIB the authority to formulate investment policies of the permanent endowment funds and earnings reserve funds. *Idaho Code*, Section 57-723, stipulates that the EFIB and its investment managers are governed by the *Idaho Uniform Prudent Investor Act* and the *Idaho Constitution*. In addition to the investment types mentioned previously, the EFIB has approved the following types of investments:

- Preferred stock
- International equities
- Collateralized mortgage obligations
- Fixed-income securities with a minimum Baa rating by Moody's or equivalent rating, Yankee bonds with a minimum A rating, equity-linked debt with a minimum rating of A, pass-through mortgage-backed securities with a minimum Aaa or equivalent rating
- Derivative instruments, specifically covered call options
- Forward currency contracts
- Forward and futures contracts to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed upon price

The Retirement Board of the Public Employee Retirement System of Idaho (PERSI) has established an investment policy in accordance with *Idaho Code*, Sections 59-1301 through 59-1399. In addition to the investments mentioned above for the STO and the EFIB, PERSI has approved the following types of investments:

- Treasury inflation protected securities
- Derivative instruments, specifically, futures, options, swaps, repurchase agreements, and forward currency contracts by a few selected managers

Custodial Credit Risk of Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the State will not be able to recover the value of its investments or

collateral securities that are in the possession of an outside party.

At June 30, 2006, the Judges' Retirement fund had \$10.3 million federal agency securities, \$0.6 million foreign agency securities, \$3.6 million corporate bonds, and \$41.6 million equity securities held by the broker-dealer, not in the fund's name. The fund's investment policy does not contain legal or policy requirements that would limit exposure to custodial credit risk.

The PERSI investment policy mitigates custodial credit risk, to the extent possible, by requiring that investments be registered in the name of PERSI and be delivered to a third party custodian. Short-term investments are created through daily sweeps of excess cash. At June 30, 2006, PERSI had various short-term investments of \$1.9 million held by various counterparties, not in PERSI's name.

The Bronco Athletic Association (BAA) does not have a formal policy that would limit exposure to custodial credit risk. At June 30, 2006, the BAA held \$100,000 of certificates of deposit that were uninsured and uncollateralized.

The Boise State University Foundation does not have a formal policy that would limit its exposure to custodial credit risk. At June 30, 2006, the Foundation held \$0.5 million of U.S. Treasury Bonds, \$5.7 million of Corporate Bonds, \$6.2 million of bond mutual funds, \$52.9 million of equity mutual funds, \$0.1 million of private equity funds, and \$0.3 million of insurance annuities that were uninsured, uncollateralized, and held in the name of the broker.

Interest Rate Risk of Debt Securities

Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. All investment managers are governed by the *Uniform Prudent Investor Act* as detailed in *Idaho Code*, Sections 68-501 through 68-514. The State has not adopted a formal policy that addresses interest rate risk, except as follows:

- The PERSI manages interest rate risk using the effective duration methodology, which takes into account the options on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the PERSI portfolios are managed in accordance with operational guidelines, which include an expected range of interest rate risk in the portfolio. Per the

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

PERSI policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager. The reporting of effective duration found in the separate schedule following the primary government interest rate risk quantifies the interest rate risk of the PERSI fixed-income assets.

- The EFIB has adopted the policy that the fixed-income weighted average of the EFIB portfolio may not exceed that of the Lehman Aggregate Index by more than one-half year. The separate Endowment Funds Interest Rate Risk schedule quantifies the

interest rate risk of EFIB fixed-income securities at June 30, 2006.

- The Idaho Housing and Finance Association has adopted bond indentures and bond and trust resolutions that provide investments maturities be based upon the cash requirements of the Association's accounts, as determined by authorized investment officers. The Association's investment maturities are presented as part of the Component Units Maturity of Debt Investments at June 30, 2006.

Primary Government and Fiduciary Funds Investments and Maturities at June 30, 2006
(Except Endowment Funds and PERSI)
(dollars in thousands)

Investment Type	Less than 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	21-30 Years	26-30 Years	Total Fair Value
<u>Debt Securities:</u>								
Money Market Funds	\$621,459							\$621,459
Certificates of Deposit	99,074							99,074
Repurchase Agreements	868,158							868,158
Commercial Paper	202,068	\$302	\$521					202,891
U.S. Government Obligations	219,669	55,242	15,090					290,001
U.S. Gov't Agency Obligations	1,012,290	131,214	22,419	\$30,181				1,196,104
Mortgage-Backed Securities*	94	84,432	166,289		\$1,004			251,819
Asset-Backed Securities*		54,499	2,902					57,401
Commercial Mortgages		3,015	6,713					9,728
Corporate Obligations	223,493	372,974	26,283	6,982				629,732
Municipal and Public Entity Obligations	10,050	20	42					10,112
Bond Mutual Funds and Other Pooled Fixed-Income Securities	1,598	8,211	7,963	7,052	637	\$842	\$118	26,421
Foreign Agency Obligations		295	262					557
Idaho Small Business Loans		627	1,638	219	345			2,829
External Investment Pools	22,711	2,005						24,716
Total Debt Securities	\$3,280,664	\$712,836	\$250,122	\$44,434	\$1,986	\$842	\$118	4,291,002
<u>Other Investments:</u>								
Mutual Funds								48,424
Preferred Stock								25,975
Domestic Equity Securities								37,082
Foreign Equity Securities								6,183
Investment Agreement								13,473
<u>Reconciling Items:</u>								
Public School Endowment and Pooled Endowment Investments Reported Separately Below								1,063,588
PERSI Investments (Part of Fiduciary Funds) Reported Separately Below								10,220,531
Less Idle Pool Cash Equivalents Included with Investments for Note Disclosure Purposes								(1,253,844)
Primary Government and Fiduciary Funds Investments Per Financial Statements								\$14,452,414

Cash collateral received for securities lending transactions is reinvested for less than one year.

*Mortgage-backed and asset-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

PERSI Investments at June 30, 2006

(dollars in thousands)

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Fixed Income	\$2,194,522
Commingled Domestic Fixed Income	76,615
Short-Term Domestic Investments	421,807
Idaho Commercial Mortgages	276,766
Domestic Fixed-Income - U.S. Dollar Denominated International Securities	136,967
Short-Term International Investments	129,466
International Fixed-Income	52,053
Short-Term Investments	903
Domestic Equities	3,915,958
Domestic Equities - Preferred Stock	1,577
International Equities	2,191,333
Real Estate	178,238
Private Equity - Domestic	289,655
Private Equity - International	11,969
Mutual Funds	222,627
Commingled Equity Fund	120,075
Total Fair Value of PERSI Investments	\$10,220,531

PERSI Effective Duration of Fixed Income Assets by Security Type at June 30, 2006

(dollars in thousands)

<u>Investment Type</u>	<u>Domestic Securities</u>		<u>International Securities</u>		<u>Total Fair Value</u>
	<u>Fair Value</u>	<u>Effective Duration in Years</u>	<u>Fair Value</u>	<u>Effective Duration in Years</u>	
<u>Debt Securities:</u>					
Asset-Backed Securities	\$21,991	0.59			\$21,991
Asset-Backed Securities	326	*			326
Mortgages	44,029	0.88			44,029
Commercial Paper	48,849	0.05	\$8,478	0.21	57,327
Commercial Paper	174,226	*	39,643	*	213,869
Corporate Bonds	459,012	3.81	61,108	2.18	520,120
Corporate Bonds	583	*	3,718	*	4,301
Fixed-Income Derivatives	55	*			55
Government Agencies	136,547	3.48			136,547
Government Bonds	381,286	5.82	5,966	25.28	387,252
Government Mortgage-Backed Securities	410,235	3.73			410,235
Government Mortgage-Backed Securities	53,417	*			53,417
Pooled Investments	33,357	0.08			33,357
Pooled Investments	75,198	*			75,198
Preferred Stock	1,496	3.14			1,496
Preferred Stock	80	*			80
Private Placements	47,908	2.42			47,908
Private Placements	4,010	*			4,010
Repurchase Agreements	(4,214)	*	65,170	0.00	60,956
TIPS	800,261	7.03			800,261
Idaho Mortgages	276,766	*			276,766
Total PERSI Fixed Income Securities	\$2,965,418		\$184,083		\$3,149,501

*Duration calculations for some securities are not readily available due to the nature of those securities. Examples include securities that are not publicly traded or that are thinly traded, securities with a short maturity, and those that have expired.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Endowment Funds Interest Rate Risk at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Modified Duration In Years
<u>Debt Securities:</u>		
Northern Lehman Aggregate Index Fund	\$231,739	4.79
Northern U.S. TIPS Index Fund	28,363	6.12
Total Endowment Fund Debt Securities	260,102	
<u>Other Investments:</u>		
Equity Investments	676,009	
Money Market Funds	7,163	
Securities Lending Collateral	120,314	
Total Other Endowment Fund Investments	803,486	
Total Endowment Fund Investments		
Reported on the Financial Statements	<u>\$1,063,588</u>	

Component Units Maturity of Debt Investments at June 30, 2006

(dollars in thousands)

Investment Type	Less than 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	Total Fair Value
<u>Debt Securities</u>						
Money Market Funds	\$166,936					\$166,936
Certificates of Deposit	500					500
U.S. Government Obligations	4,613	\$21,002	\$2,200	\$20,100		47,915
U.S. Government Agency Obligations	15,632	38,403	21,914	61,171		137,120
Corporate Obligations	19,114	21,003	6,778	10,319	\$15	57,229
Municipal and Public University Obligations		257	915	405		1,577
Bond Mutual Funds	13	1,289	31,459	751	34	33,546
Total Debt Securities	<u>\$206,808</u>	<u>\$81,954</u>	<u>\$63,266</u>	<u>\$92,746</u>	<u>\$49</u>	<u>444,823</u>
<u>Other Investments</u>						
Cash Equivalents included with Investments						1,700
Domestic Equities						117,840
Foreign Equities						498
Investment Agreements						281,986
Corporate Obligations Without Maturity Dates						7,349
Equity Mutual Funds						80,479
Real Estate and Perpetual Trusts						3,593
Insurance Annuity						333
Total Component Unit Investments Reported on Financial Statements						<u>\$938,601</u>

Credit Risk of Debt Securities

The risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation is commonly expressed in terms of the credit quality rating issued by a national rating organization. Investments explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality ratings. Unless otherwise stated, the ratings presented use the

Moody's scale. Although the STO does not have a formal policy to address credit risk of debt securities, all investment managers are governed by the *Uniform Prudent Investor Act* as detailed in *Idaho Code*, Sections 68-501 through 68-514. The following Boards have formally adopted policies that address credit quality ratings of debt securities:

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

- The Building Authority investments are restricted by terms of individual revenue bonds. All Building Authority holdings are in accordance with those restrictions.
- The State Board of Education policy allows colleges and universities to invest in debt securities with an Aa or better rating and commercial paper of prime or equivalent grade. Investments in any other form require prior Board of Education approval.
- In accordance with the *Idaho Code*, Section 1-2008, the EFIB formulates the investment policy for the Judges' Retirement fund. The Judges' Retirement fund policy allows fixed-income securities with a minimum Baa rating by Moody's (or equivalent rating by another national rating organization), Yankee bonds, commercial paper, equity-linked debt with a minimum A rating, pass-through mortgage-backed securities with a minimum Aaa rating or equivalent, and collateralized mortgage obligations.
- The EFIB investment policy states that bonds must be rated Bbb (or the equivalent) or better, commercial paper must be rated A-1 (or the equivalent) or better, and money market funds shall contain securities with an absolute minimum of investment grade by Standard & Poor's or Moody's.
- PERSI has no strict limitations for credit risk exposures. Each PERSI portfolio is managed in accordance with operational guidelines that are specific as to expected portfolio characteristics that usually, but not always, include credit quality and exposure levels. Per the PERSI policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager.
- Idaho Housing and Finance Association policies permit investments for each bond issue in accordance with the various bond indentures and bond resolutions adopted by the Association. Program account investments are restricted to those empowered by the Act or by federal regulations. The Association has adopted resolutions as policy for authorized investments in the Affordable Housing Investment Trust and the Bond Rating Compliance and Loan Guaranty Trust. The Board has not adopted a formal policy related to the Association's business operations investments.
- The Idaho State University Foundation policy requires all bonds purchased to have an A rating or better.

Primary Government Rated Debt Investments at June 30, 2006
(Except Endowment Funds and PERSI)
(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Baa	A1-P1	Unrated
Money Market Funds*	\$643,679	\$294,102					\$349,577
Certificates of Deposit	99,074						99,074
Repurchase Agreements	63,054	48,839	\$2,842				11,373
Commercial Paper	202,891	521	302			\$202,068	
U.S. Gov't Agency Obligations	1,196,104	865,097	255	\$330,747			5
Mortgage-Backed Securities	251,819	250,194					1,625
Asset-Backed Securities	17,347	17,347					
Commercial Mortgages	9,728	9,728					
Corporate Obligations	200,364	89,687	54,312	55,373	\$992		
Municipal and Public Entity Obligations	10,112	62					10,050
Bond Mutual Funds and Other Pooled Fixed-Income Securities	26,540		505				26,035
Foreign Agency Obligations	557	253	71	47			186
External Investment Pools	24,716						24,716
Total Before Securities Lending	2,745,985	1,575,830	58,287	386,167	992	202,068	522,641
Reinvestment of Securities Lending Collateral:							
Money Market Funds	169						169
Repurchase Agreements	805,105						805,105
Asset-Backed Securities	40,054	40,054					
Corporate Obligations	456,130	223,617	177,012	55,501			
Total	\$4,047,443	\$1,839,501	\$235,299	\$441,668	\$992	\$202,068	\$1,327,915

*Includes \$327.0 million of money market funds that are reported with cash and cash equivalents.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Endowment Funds

Credit Quality Ratings of Debt Investments at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	S & P Rating
Northern Lehman Aggregate Index Fund	\$231,739	AA
Northern U.S. TIPS Index Fund	28,363	AAA
Northern Money Market Fund	7,163	A
Total	\$267,265	

PERSI Rated Fixed-Income Securities at June 30, 2006

(dollars in thousands)

Credit Quality Rating (S & P Rating Level)	Fair Value	Investment Type	
		Domestic Securities	International Securities
Agency (A-1+)	\$1,907	\$1,907	
AAA	673,852	637,416	\$36,436
AA	108,855	103,336	5,519
A	216,061	203,509	12,552
BBB	113,297	108,487	4,810
BB	16,207	16,207	
B	32,385	32,297	88
CCC	6,195	6,195	
Not Rated	378,507	253,828	124,679
Total	\$1,547,266	\$1,363,182	\$184,084

Component Units Rated Debt Securities at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Baa	Ba	Bbb-Ccc	Unrated
Money Market Funds	\$167,444			\$97				\$167,347
U.S. Government Agency Obligations	137,119	\$132,036		95				4,988
Corporate Obligations	58,507	5,459	\$17,036	23,573	\$804	\$1,002	\$9,698	935
Municipal and Public University Obligations	1,577	203	41	1,091			40	202
Bond Mutual Funds	33,545	4,763	10,664	520	490	10	3,640	13,458
Total	\$398,192	\$142,461	\$27,741	\$25,376	\$1,294	\$1,012	\$13,378	\$186,930

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5 percent of the total government investments are concentrated in any one issuer. Investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. State statute places no limit on the amount that may be invested in any one issuer.

- The State, the Idaho Potato Commission, the Idle Pool, the colleges and universities, and the college savings plan have not adopted a formal policy to address concentration of credit risk. The Idaho State Building Authority places no limit the Association may invest in any one issuer.
- The Idaho Housing and Finance Association places no limit on the amount the Association may invest in one issuer.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

- The Idaho Life and Health Insurance Guaranty Association's Investment Committee determines the appropriate diversification of the portfolio.
- The Idaho Individual High Risk Reinsurance Pool's policy provides that no more than 10 percent of the short-term fund balance may be invested in the securities of any one issuer. The policy exempts the

following types of investments: obligations of the U.S. government or its agencies, repurchase agreements collateralized by obligations of the U.S. government or its agencies, federally insured certificates of deposit, mutual funds, and money market mutual funds.

Primary Government Concentration of Credit Risk at June 30, 2006

(dollars in thousands)

Portfolio	Issuer	Fair Value	Percent of Portfolio Investments
Idaho Potato Commission:	Federal Home Loan Bank	\$1,556	100.0
Idaho State Building Authority:	Citigroup Global Markets, Inc.	2,842	11.3
Idle Pool:	Federal Home Loan Bank	176,493	10.2
	Federal Home Loan Mortgage Corporation	202,084	11.7
	Federal National Mortgage Association	212,117	12.2
Idaho State University:	Citigroup Global Markets	11,373	100.0
University of Idaho:	Cohen & Steers REIT	8,100	12.6
	Nicholas Applegate	3,925	6.1
	Pimco	6,850	10.6
IDEal College Savings Plan:	TIAA-CREFF	13,473	14.8

Component Unit Concentration of Credit Risk at June 30, 2006

(dollars in thousands)

Component Unit	Issuer	Fair Value	Percent of Portfolio Investments
Idaho Housing and Finance Association:	Citigroup Financial Group	\$198,698	33.4
	Federated Treasury Obligation Funds	128,513	21.6
	Federal Home Loan Bank	64,041	10.8
	Trinity Plus Funding	33,149	5.6
Idaho Life and Health Insurance Guaranty Association:	Federal Home Loan Mortgage Corporation	3,451	47.9
	Federal National Mortgage Association	2,500	34.7
Health Reinsurance:	Federal Home Loan Bank	6,856	50.0
	Federal National Mortgage Association	1,874	13.7
	Zions Bankcorp Commercial Paper	1,325	9.7
	FCAR Owner Trust Commercial Paper	1,000	7.3
	Schwab Money Market Funds	840	6.1
	Federal Home Loan Mortgage Corporation	690	5.0

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Foreign Currency Denominated Investments

Investments denominated in foreign currencies face a potential risk of loss in fair value from changes in currency exchange rates. The following describes the policies related to foreign currency risk for those state entities that have investments denominated in a foreign currency:

- The EFIB investment policy statement permits investing up to 20 percent of the EFIB total investments in international equities. No foreign fixed-income securities are permitted except currency.
- The Judges' Retirement fund investment policy permits investing up to 20 percent of the fund's total investments in international equities. No foreign fixed-income securities are permitted except currency.
- The PERSI investment policy provides individual manager guidelines, which outline at a minimum, a range of currency exposure. Each portfolio is monitored for currency exposure. Managers are required to report variances.
- The Lewis-Clark State College Foundation investment policy permits investments in foreign equities. The policy limits the investments in international equities to no more than 15 percent of the foundation's total investment portfolio.
- The University of Idaho Foundation does not presently have a policy that addresses foreign currency risk.

Endowment Funds Foreign Currency Risk at June 30, 2006

(dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Common Stock	\$5,978
Canadian Dollar	Common Stock	1,833
Euro	Common Stock	37,779
Hong Kong Dollar	Common Stock	2,499
Japanese Yen	Common Stock	34,502
Mexican Peso	Common Stock	407
Norwegian Krone	Common Stock	2,796
Singapore Dollar	Common Stock	1,292
South African Rand	Common Stock	725
South Korean Won	Common Stock	1,480
Swedish Krona	Common Stock	2,298
Swiss Franc	Common Stock	8,233
U.K. Pound	Common Stock	23,239
Total		\$123,061

Judges' Retirement Fund Foreign Currency Risk at June 30, 2006

(dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Equities	\$364
Canadian Dollar	Equities	125
Euro	Equities	2,307
Japanese Yen	Equities	1,989
South African Rand	Equities	93
U.K. Pound	Equities	1,305
Total		\$6,183

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

PERSI Foreign Currency Risk at June 30, 2006

(stated at fair value of U.S. dollars in thousands)

Currency	Investment Type			Fair Value of Currency in U.S. Dollars
	Short-Term Investments	Equities	Fixed Income	
Australian Dollar	\$294	\$62,223	\$2,448	\$64,965
Botswana Pula		1,477		1,477
Brazil Real	(3,040)	45,688		42,648
British Pound Sterling	106,257	296,716	(106,604)	296,369
Canadian Dollar	18,942	25,378	(13,440)	30,880
Chilean Peso	316	4,949		5,265
Czech Koruna	9			9
Danish Krone	13	5,510		5,523
Egyptian Pound		8,467		8,467
Euro	(80)	601,801	339	602,060
Hong Kong Dollar	(1,074)	102,989		101,915
Hungarian Forint	(352)	11,945	143	11,736
Indonesian Rupian		39,494		39,494
Israeli Shekel	436	14,240		14,676
Japanese Yen	3,504	355,152	2,298	360,954
Malaysian Ringgit	(389)	9,642		9,253
Mexican New Peso	119	23,789	6,493	30,401
New Taiwan Dollar	25	73,233		73,258
New Turkish Lira	(144)	21,782		21,638
New Zealand Dollar	18	3,091		3,109
Norwegian Krone	3	11,014		11,017
Philippines Peso	(218)	7,576		7,358
Polish Zloty			3,192	3,192
South African Comm Rand	(3,602)	77,108		73,506
Singapore Dollar	82	17,263	5,879	23,224
South Korean Won	(3,250)	146,668		143,418
Sri Lanka Rupee		118		118
Swedish Krona	82	23,660		23,742
Swiss Franc	498	87,677		88,175
Thailand Baht	(139)	33,641		33,502
Zimbabwe Dollar	2	677		679
Total	\$118,312	\$2,112,968	(\$99,252)	\$2,132,028

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

College and University Foundation Foreign Currency Risk at June 30, 2006 (dollars in thousands)

Currency	Investment Type	Fair Value in U.S. Dollars
Australian Dollar	Equities	\$1,315
Brazilian Real	Equities	10
Canadian Dollar	Equities	181
Chinese Yuan	Equities	9
Danish Krone	Equities	417
Euro	Equities	4,141
Hong Kong Dollar	Equities	1,666
Indian Rupee	Equities	11
Israeli Shekel	Equities	25
Italian Lire	Equities	15
Japanese Yen	Equities	3,077
Malaysian Ringgit	Equities	183
Mexican Peso	Equities	30
New Zealand Dollar	Equities	103
Norwegian Krone	Equities	52
Russian Ruble	Equities	5
Singapore Dollar	Equities	208
South Korean Won	Equities	17
Swedish Krone	Equities	233
Swiss Franc	Equities	578
U.K. Pound	Equities	6,290
Total		\$18,566

Debt Investments with Terms That May Cause the Fair Value to Be Highly Sensitive To Interest Rate Changes

Mortgage-Backed Securities have a return based on the cash flows from interest and principal payments on the underlying mortgages. As a result, they are sensitive to prepayments, which are likely to occur in declining interest rate environments. To the extent possible, this prepayment risk is reflected in the interest rate risk of the portfolios by using the weighted average method to calculate interest rate risk for long-term investments and the modified duration method used by EFIB and PERSI.

Treasury Inflation Protected Securities (TIPS) are fixed-income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2006, PERSI had investments in TIPS with a fair value of \$815.3 million.

At June 30, 2006, the STO Idle Pool portfolio included the following debt investments with terms that may cause their fair values to be highly sensitive to interest rate changes:

- One corporate obligation valued at \$5.0 million with a floating rate coupon that resets every month to the one-month LIBOR (the rate of interest at which banks

borrow funds, in marketable size, from other banks in the London interbank market) minus basis points.

- U.S. agency obligation valued at \$10.3 million with a floating rate coupon that resets every quarter to the two-year constant maturity index minus basis points
- Corporate obligations valued at \$10.0 million that each have a floating rate coupon that resets every quarter to the 3-month LIBOR plus basis points
- One corporate step rate note valued at \$5.0 million with semi-annual increases of 20 basis points that is callable semi-annually
- One federal agency obligation step rate note valued at \$10.0 million with semi-annual increases of 50 basis points that is callable semi-annually
- U.S. agency obligations valued at \$50.0 million with call options

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

At June 30, 2006, the Local Government Investment Pool and Diversified Bond Fund had debt investments with terms that may cause the fair value to be sensitive to interest rate changes. See Note 3, External Investment Pools, for details.

Repurchase Agreements

Repurchase agreements are purchases of securities with simultaneous agreements to resell those same securities in the future at the same price plus a contract rate of interest. These investments are made throughout the year for short periods and fixed terms. At June 30, 2006, PERSI had credit exposure of \$127.6 million that is included with short-term investments.

Securities Lending Agreements

Security lending agreements are transfers of securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. *Idaho Code*, Section 67-1210A, authorizes

the STO to engage in securities lending agreements. The STO securities custodian manages the securities lending program. During the year, the custodian lent securities of the types shown in the table below for cash collateral. The investments are collateralized at 102 percent of the fair value of securities lent. The securities lending agreement requires daily monitoring of the fair value of securities lent and collateral received with additional collateral obtained as necessary to meet margin requirements. There are no restrictions on the amount of loans that can be made. Either the State or the borrower can cancel all securities lent upon demand. The cash collateral received is invested by the custodian and held in a separate account in the name of the STO. Cash is reinvested with terms approximately the same as the actual securities lent. The STO is indemnified for loss due to default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans. At year-end, the Idle Pool had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed.

Primary Government
Balances of Securities Lending Transactions at June 30, 2006
(dollars in thousands)

Securities Lent for Cash Collateral	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
U.S. Treasury Obligations	\$920,693	\$946,528
U.S. Government Agency Obligations	30,699	31,965
Mortgage Backed Securities	215,815	219,983
Corporate Debt Instruments	99,315	102,549
Total	\$1,266,522	\$1,301,025

The Idle Pool and internal participants' portions of the LGIP and DBF reinvestment of securities lending balances are reported in the General Fund. The reinvestment of securities lending balances attributable to LGIP and DBF external participants are reported in the investment trust funds. These amounts do not include EFIB securities lending balances.

The EFIB engages in securities lending agreements. The EFIB custodian, Northern Trust Company, lends U.S. government securities, U.S. agency obligations, and equities for collateral in the form of cash or other collateral with at least 102 percent of the lent securities' fair value. The securities loans can be terminated on demand by either party. The EFIB is indemnified should borrowers fail to return the securities and for fraudulent or negligent acts performed by Northern Trust Company. As such, credit risk exposure is limited under these transactions. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted average maturity of 72 days. The

maturities of loans are affected by the securities loans made by other entities that use the agent's pool. EFIB cannot pledge or sell collateral securities without borrower default.

Derivatives

Derivatives are financial obligations whose value is derived from underlying debt or equity securities, commodities, or currencies. Derivatives are designed, among other things, to help investors protect themselves against the risk of price changes.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

Boise State University invests in interest-only U.S. Treasury strips to maximize yields. These investments are based on cash flows from interest payments on underlying U.S. Treasury Securities. The underlying securities are guaranteed by the U.S. government and do not present the same level of risk as do other forms of derivatives.

The Idaho State Building Authority established a forward interest rate swap contract with Lehman Brothers Financial Products, Inc., on the 1998 Prison Project (1998 Series A Bonds). This forward interest rate contract can be terminated by the Authority at any time from origination on September 19, 2003, to the effective date of June 3, 2008. In addition, the contract can also be terminated after the effective date of June 3, 2008, to the expiration date of September 1, 2025. The Authority executed this forward interest rate contract to secure a 4.3 percent fixed interest rate for use in a specified proposed refunding provided that the savings ratio achieved is not less than 3 percent, regardless of whether or not the contract is terminated at or prior to its implementation date, no later than September 1, 2008. The Authority intends to terminate the forward interest rate contract any time before the termination date if the termination payment to be received by the Authority equals or exceeds two times the present value savings for the bonds for which such contract was executed. If the forward interest rate contract is not terminated earlier, the Authority's intention is to terminate such contract by the implementation date in order to preserve the present value savings and to avoid unnecessary basis risk to the Authority. The contract is in a liability position of \$1.5 million at June 30, 2006. The position is determined by the difference between a fixed 4.3 percent and 67 percent of the LIBOR rate at the first of the month (3.8 percent at June 30, 2006). The swap agreement is characterized as a derivative and is carried on the Statement of Net Assets as Other Liabilities at fair value with changes in that value recognized in earnings of the current period. The impact on Other Liabilities as of June 30, 2006, was an aggregate amount of \$1.5 million.

The EFIB periodically invests in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The EFIB use of these securities is limited to small positions in the EFIB international and domestic equity portfolios established primarily for hedging or risk reduction. At June 30, 2006, the domestic equity portfolio held 153 ten-year treasury contracts with a fair value of \$16.0 million and one Standard & Poor's 500 contract with a fair value of \$0.3 million. The mark-to-market

receivable as of that date was \$72,628, which was received on July 1, 2006.

The EFIB held forward currency contracts representing agreements to buy or sell euro, British pounds, Norwegian krone, Swedish krona, U.S. dollar, Swiss francs, Hong Kong dollars, and Japanese yen upon established future dates for agreed-upon prices. These forward currency contracts allow the EFIB to lock in future foreign exchange rates, thus reducing the risk stemming from currency fluctuations. At June 30, 2006, the fair value of the obligations under the purchase side of these forward contracts amounted to \$16.4 million and the fair value of the obligations under the sale side of the forward contracts amounted to \$16.4 million.

PERSI permits a few selected managers to use derivatives. In every case, the type of derivatives used and limits on their use are defined in manager contracts and are monitored on an ongoing basis. At June 30, 2006, PERSI reported the following derivative and hedging activity:

- Futures contracts with a fair value of \$19,345 that are included in Fixed Income Investments. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed. PERSI had the following futures contract exposure (negative values represent short future positions):
 - (a) Cash and cash equivalents (Euro) of \$23.0 million
 - (b) U.S. Treasury bond futures of (\$4.2) million
 - (c) U.S. Treasury note future of (\$17.5) million
- Option contracts give PERSI the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by PERSI are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations. At June 30, 2006, PERSI had option contracts payable with a fair value of \$59,953 that is included in the liabilities as investments purchased. At June 30, 2006, PERSI had the following option contracts exposure:
 - (a) Cash and cash equivalents, purchased call options of \$136,013
 - (b) Cash and cash equivalents, written call options of \$787
 - (c) Cash and cash equivalents, written put options of \$180
 - (d) Fixed-income purchased call options of \$3,563

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

- (e) Fixed-income written call options of \$27,906
- (f) Fixed-income written put options of \$50,750

- Swap agreements—PERSI held swap agreements with a fair value of \$105,228 that have been included in Fixed Income Investments.
- Forward foreign currency exchange contracts—PERSI has agreed to purchase or sell currency at various dates in the future at a specific price. Some of PERSI's international and real estate investment managers use forward contracts to hedge the exposure of investments to fluctuations in foreign currency. PERSI has established controls to monitor the creditworthiness of the counterparties. As of June 30, 2006, PERSI had sold forward currency contracts with a fair value of \$904.2 million and had bought forward currency contracts with a fair value of \$900.2 million. Purchases of forward currency contracts are liabilities reported as investments purchased, and sales of forward currency contracts are receivables reported as investments sold.

The Idaho Housing and Finance Association established interest swap contracts with Lehman Brothers Financial Products, Inc., on several single-family mortgage bond issues. The Association also issued variable rate debt in connection with the same bond issues. The swap agreements, when combined with the associated variable rate debt, create a synthetic fixed-rate debt obligation. The swap agreements are carried on the Statement of Net Assets in Other Accrued Liabilities at fair value, with changes in the value recognized in earnings of the current period. The impact on Other Accrued Liabilities as of June 30, 2006, was an aggregate amount of \$12.6 million.

Donor-Restricted Assets

Both the Public School Endowment and the Pooled Endowment funds have a nonexpendable permanent corpus and an earnings reserve account, which is used to receive earnings and to pay beneficiaries and expenses. The EFIB invests the revenues generated from the management and/or sale of endowment lands in accordance with *Idaho Code*, Title 57, Chapter 7, which also governs the spending of net appreciation from these investments. At June 30, 2006, net appreciation of restricted investments was \$44.7 million and \$24.8 million for Public School Endowment fund and Pooled Endowment fund, respectively. Net appreciation of investments is reported as part of restricted net assets.

Idaho Public Television (IPTV) Foundation holds donor restricted assets in the amount of \$2.1 million at June 30, 2006, which is reported as part of Permanent Trusts in the net assets. The IPTV Foundation Board advises the amount of net appreciation that IPTV may spend. IPTV determines the purpose of the expenditures. At June 30, 2006, there was no net appreciation available for expenditure.

The Department of Fish and Game holds cash and cash equivalents, which are reported as part of restricted net assets valued at \$3.0 million for the purposes of managing wildlife habitat and for purchasing special enforcement equipment. Funds are held in the name of the Department of Fish and Game for the Craig Mountain Trust and the Elm/Pogue Memorial. Expenditures are budgeted based on expected revenue. No net appreciation was available for expenditure at June 30, 2006.

Endowments for the Bronco Athletic Association, Boise State University Foundation, Idaho State University Foundation, and the University of Idaho Foundation are managed in accordance with *Idaho Code*, Sections 33-5001 through 33-5008 and rules adopted by their boards as specified below.

The Bronco Athletic Association receives certain gift assets that are to be held in perpetuity for the benefit of Boise State University. At June 30, 2006, the amount permanently restricted by donors was \$8.3 million. This amount is included as part of restricted net assets. During fiscal year 2006, the Foundation received \$400,411 in new contributions. The net appreciation available for expenditure at June 30, 2006, was \$617,966. The Association has set a "total return" policy that specifies 4.5 percent of the 3-year rolling average of the ending market value of each individual account be made available for expenditure each year. This amount is reduced accordingly if the account has insufficient accumulated earnings to cover the payout.

The Boise State University Foundation receives certain gift assets that are to be held in perpetuity for the benefit of the University. At June 30, 2006, the amount permanently restricted by donors was \$39.6 million. This amount is included as part of restricted net assets. The Foundation received new contributions of \$3.9 million during fiscal year 2006. The net appreciation available for expenditure at June 30, 2006, was \$2.7 million. The Foundation has set a "total return" policy that specifies 5 percent of the 3-year rolling average of the ending market value of each individual account be made available for expenditure each year. This amount

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

is reduced accordingly if the account has insufficient accumulated earnings to cover the payout.

The Idaho State University Foundation receives certain gift assets that are to be held in perpetuity for the benefit of the University. At June 30, 2006, the amount permanently restricted by donors was \$28.3 million. This amount is included as part of restricted net assets. The Foundation received new contributions of \$3.0 million during fiscal year 2006. The net appreciation available for expenditure at June 30, 2006, was \$1.2 million. The Foundation has implemented a policy that a stated fixed rate (5 percent for 2006) was treated as earnings, to be used for donor specified expenditures in the current year. The difference between the stated rate and actual earnings is an adjustment to the principal balance. Terms specified in donor agreements, if they differ from this practice, are honored.

The University of Idaho Foundation receives certain gift assets that are to be held in perpetuity for the benefit of the University. At June 30, 2006, the amount

permanently restricted by donors was \$93.1 million. This amount is included as part of restricted net assets. During fiscal year 2006, the Foundation received \$3.0 million in new contributions. The net appreciation available for expenditure at June 30, 2006, was \$4.5 million. The Foundation has the following two-tier spending policy dependent upon the endowment agreement that exists for each endowment.

1. Endowments with agreements that require reinvestment of all realized capital gains as principal can distribute only realized interest and dividends, and all realized gains are reinvested.
2. For endowments without restrictive reinvestment language, the Board of Directors establishes an annual spending rate. If the total realized dividends, interest, and short-term capital gains are less than the total amount required to make a distribution based on the established spending rate, realized long-term capital gains will be used to make up the shortfall.

NOTE 3. EXTERNAL INVESTMENT POOLS

A. Overview of the External Investment Pools

Idaho Code, Sections 67-2327 and 67-2328, authorize the State Treasurer's Office (STO) to sponsor external investment pools, the Local Government Investment Pool (LGIP) and the Diversified Bond Fund (DBF). In order to earn a higher yield, Idaho governmental entities may voluntarily deposit monies not immediately needed to meet operating obligations in these pools. The LGIP is a short-term investment pool. Participants have overnight availability to their funds, and the weighted average maturity of investments at June 30, 2006, was 135 days. The LGIP distributes earnings monthly to the participants based on their average daily balance as a percentage of the total pool. The STO created the DBF for those state and public agencies able to exchange current liquidity for potentially greater returns over the long run (3.5 years or longer). Withdrawals of 10 percent or less of the total pool generally require five working days' notification. Withdrawals of more than 10 percent of the total fund require 25 working days' notification.

The STO must operate and invest the funds of both pools for the benefit of the participants. The STO makes investments in accordance with *Idaho Code*, Sections 67-1210 and 67-1210A. The pools are not registered with the Securities and Exchange Commission or any other

regulatory body and are not rated. The STO does not provide any legally binding guarantees to support the value of shares to the participants. Each month the STO transfers funds to cover administrative costs associated with the specific pool to the STO operating fund.

The LGIP and DBF are reported as fiduciary-type investment trust funds. The pools have not issued separate reports as external investment pools. The assets and liabilities in these notes will not agree to the amounts shown on the fiduciary fund financial statements because GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that only the external portion of investment pool assets be reported in the investment trust funds. The internal portion of pool assets is reported in the appropriate individual fund or component unit.

Investments were valued through a quoted market price at June 30, 2006. The LGIP provides participants with a net asset valuation factor that enables them to convert their monthly statement balance to fair value. The DBF reports participants' balances at fair value on their monthly statements. The State uses the aggregate method to determine the increase/decrease in fair value of each pool.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

The LGIP and DBF engage in securities lending transactions. A securities lending agent manages the securities lending program. During the year, the agent lent securities for cash collateral. The cash collateral can be pledged without borrower default. The investments are collateralized at 102 percent of the market and restated to fair value on a daily basis. There are no restrictions on the amount of loans that can be made. Either the State or the borrower can cancel all securities lending agreements upon demand. The cash collateral received is invested by the agent and held in a separate account in the name of the STO. Cash is only reinvested in instruments with terms similar to the actual securities lent. The STO is indemnified for loss due to default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans. At year-end the STO had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. At year-end there was no custodial credit risk because the securities were held by the State's agent and not by the counterparty.

The pools disclose certain risks that may be associated with their deposits and investments. Disclosures are made under each individual pool for the following required risk disclosures:

Credit risk associated with investments is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation. Obligations explicitly guaranteed by the U.S. government are not considered to have credit risk. The pools do not have a formally adopted

policy to address credit risk associated with investments.

Concentration of credit risk results when investments are concentrated in one issuer and represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that when governments invest discretely on behalf of their various funds, such as the LGIP or DBF, they should disclose the amount and percentage when 5 percent of the total fund investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The Pools do not have a formally adopted policy to address the amount that may be invested with any one issuer.

Interest rate risk occurs when investments are fixed for longer periods. Obligations explicitly guaranteed by the U.S. government are not considered to have interest rate risk. The Pools do not have a formally adopted policy to address interest rate risk.

Debt investments with terms that may cause the fair value to be highly sensitive to interest rate changes are likely to experience greater variability in their fair values due to the embedded terms. The Pools do not have a formally adopted policy to address terms that may cause the fair value of investments to be highly sensitive to interest rate risks.

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Local Government Investment Pool**Local Government Investment Pool**
Condensed Statement of Net Assets**June 30, 2006***(amounts in thousands)***Assets**

Investments, at Fair Value	\$987,581
Interest Receivable to the Pool	7,624
Reinvestment of Securities Lending Collateral	546,784

Total Assets	1,541,989
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Liabilities

Distributions Payable	3,686
Obligations Under Securities Lending	546,784

Total Liabilities	550,470
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Net Assets Held in Trust for Pool Participants	\$991,519
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Net Assets Consist of:

Net Assets Held in Trust for External Participants (\$1.00 par)	\$968,489
Net Assets Held in Trust for Internal Participants (\$1.00 par)	23,030

Net Assets Held in Trust for Pool Participants	\$991,519
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Total Participant Units Outstanding (\$1.00 par)	992,250
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Participant Net Asset Value, Offering Price and Redemption	
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Price Per Share (\$991,519 divided by 992,250 units)	\$1.00
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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Local Government Investment Pool

Condensed Statement of Operations and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

Investment Income		
Interest Income		\$37,295
Securities Lending Income		739
Net Increase (Decrease) in Fair Value of Investments		(37,431)
Total Investment Income		<u>603</u>
Expense		
Administrative Fees	(\$241)	
Securities Lending Fees	(204)	
Total Investment Expense		<u>(445)</u>
Net Investment Income		<u>158</u>
Distributions to Participants		
Distributions Paid and Payable		(37,295)
Share Transactions at Net Asset Value of \$1.00 per Share		
Pooled Participant Deposits*	2,316,216	
Pooled Participant Withdrawals*	(2,405,796)	
Net Increase (Decrease) in Net Assets and Shares Resulting From Share Transactions*		<u>(89,580)</u>
Total Increase (Decrease) in Net Assets		<u>(126,717)</u>
Net Assets Held in Trust for Pool Participants		
Beginning of Period		<u>1,118,236</u>
End of Period		<u><u>\$991,519</u></u>

*Eliminations have not been made to compensate for the effect of intra-pool transactions through the money market account for deposits, withdrawals, interest received, purchases, sales, and reinvestments.

Local Government Investment Pool

Summary of Fair Value and Interest Rate Risk at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Interest Rates	Investment Maturities	
			In Years	
			Less than 1	1-5
Commercial Paper	\$40,125	5.402%-5.503%	\$40,125	
Repurchase Agreements	50,000	2.420%	50,000	
Corporate Debt Instruments	58,658	1.450%-4.300%	10,000	\$48,658
U.S. Treasury Obligations	29,889	2.500%-2.750%	29,889	
U.S. Government Agency Obligations*	496,068	2.000%-6.600%	451,837	44,231
Money Market Mutual Fund	312,841	5.086%-5.270%	312,841	
Total Securities	<u>987,581</u>		<u>894,692</u>	<u>92,889</u>
Accrued Interest	7,624		6,915	709
Reinvestment of Securities Lending Collateral:				
Bank Deposits	168	5.250%	168	
Repurchase Agreements	324,491	5.355%-5.399%	324,491	
Corporate Debt Obligations	202,098	5.349%-5.463%	131,092	71,006
Asset-Backed Securities*	20,027	5.210%-5.587%		20,027
Total Investments	<u><u>\$1,541,989</u></u>		<u><u>\$1,357,358</u></u>	<u><u>\$184,631</u></u>

*Mortgage-backed and asset-backed securities are reported using weighted-average maturity to more accurately reflect the projected term of the security, considering interest rates and repayment terms.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Local Government Investment Pool

Change in Fair Value For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

Fair Value of Investments at June 30, 2006	\$995,205
Add: Proceeds of Investments Sold in FY2006*	14,620,316
Subtract: Cost of Investments Purchased in FY2006*	(14,534,716)
Subtract: Fair Value at June 30, 2005	(1,118,236)
Change in Fair Value of Investments During FY2006	(\$37,431)

*Eliminations have not been made to compensate for the effect of intra-pool transactions through the money market account for deposits, withdrawals, interest received, purchases, sales, and reinvestments.

Local Government Investment Pool

Concentration of Credit Risk at June 30, 2006

(dollars in thousands)

Issuer	Fair Value	Percent of Total LGIP Investments
American Beacon Money Market Mutual Fund	\$287,819	18.66
Federal Home Loan Bank	169,817	11.01
Federal Home Loan Mortgage Corporation	154,652	10.03
Federal National Mortgage Association	140,649	9.12
Lehman Brothers	102,318	6.64

Local Government Investment Pool

Credit Quality Ratings of Debt Securities at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	A-1	Unrated
Commercial Paper	\$40,125				\$40,125	
Corporate Debt Instruments	58,658	\$29,814	\$5,000	\$23,844		
U.S. Government Agency Obligations	496,068	496,068				
Money Market Mutual Funds	312,841	287,819				\$25,022
Repurchase Agreements - Underlying:						
U.S. Government Agency Obligations	50,000	50,000				
Reinvestment of Securities Lending Collateral:						
Time Deposit	168					168
Corporate Debt Instruments	202,098	106,030	61,067	35,001		
Mortgage-Backed Securities	20,027	20,027				
Repurchase Agreements	324,491					324,491
Total Rated Investments	\$1,504,476	\$989,758	\$66,067	\$58,845	\$40,125	\$349,681

Moody's or equivalent credit quality ratings have been used, except for commercial paper, which was rated A-1 by Standard and Poor's.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Local Government Investment Pool
Balances of Securities Lending Transactions at June 30, 2006
(dollars in thousands)

<u>Securities Lent for Cash Collateral</u>	<u>Fair Value of Lent Securities</u>	<u>Cash Collateral Received for Lent Securities</u>
Corporate Debt Instruments	\$4,898	\$5,096
U.S. Treasury Obligations	29,876	30,713
U.S. Government Agency Obligations	495,989	510,772
Totals	\$530,763	\$546,581

At June 30, 2006, the LGIP portfolio included the following debt investments with terms that may cause their fair values to be highly sensitive to interest rate changes:

- Corporate obligation valued at \$5.0 million with a floating rate coupon based on the three-month LIBOR (the rate of interest at which banks borrow funds, in marketable size, from other banks in the London interbank market) plus basis points
- Corporate obligation valued at \$5.0 million with a floating rate coupon based on the monthly LIBOR minus basis points
- Two corporate obligations with an aggregate value of \$19.9 million with a floating rate coupon that resets every quarter to the three-month U.S. Treasury Bill rate plus basis points - one is capped at 4.5 percent and the other at 4.8 percent
- Corporate obligation valued at \$23.8 million with a floating rate coupon that resets monthly to a calculation based on the current and prior 12 month's Consumer Price Index plus 120 basis points and the floor is zero percent
- Corporate obligation valued at \$5.0 million with a call option and semi-annual coupon increases of 20 basis points
- U.S. Agency obligations valued at \$126.5 million with call options
- Federal Home Loan Bank obligation valued at \$19.7 million with call option and annual coupon increases
- Money market mutual fund valued at \$287.8 million that invests primarily in money market and variable rate, longer-term obligations or repurchase agreements

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

C. Diversified Bond Fund

Diversified Bond Fund
Condensed Statement of Net Assets
June 30, 2006
(amounts in thousands)

Assets	
Investments, at Fair Value	\$345,254
Interest Receivable to the Pool	2,445
Reinvestment of Securities Lending Collateral	274,440
Total Assets	<u>622,139</u>
Liabilities	
Distributions Payable	1,353
Obligations Under Securities Lending	274,440
Total Liabilities	<u>275,793</u>
Net Assets Held in Trust for Pool Participants	<u>\$346,346</u>
Net Assets Consist of:	
Net Assets Held in Trust for External Participants (\$1.00 par)	\$100,763
Net Assets Held in Trust for Internal Participants (\$1.00 par)	245,583
Net Assets Held in Trust for Pool Participants	<u>\$346,346</u>
Total Participant Units Outstanding (\$1.00 par)	359,058
Participant Net Asset Value, Offering Price and Redemption	
Price Per Share (\$346,346 divided by 359,058 units)	<u>\$0.96</u>

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Diversified Bond Fund

Condensed Statement of Operations and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

Investment Income	
Interest Income	\$15,653
Securities Lending Income	300
Net Increase (Decrease) in Fair Value of Investments	(17,658)
Total Investment Income	(1,705)
Expense	
Administrative Fees	(893)
Total Investment Expense	(893)
Net Investment Income	(2,598)
Distributions to Participants	
Distributions Paid and Payable	(15,978)
Share Transactions at Net Asset Value of \$1.00 per Share	
Pooled Participant Deposits*	\$104,514
Pooled Participant Withdrawals*	(27,450)
Net Increase (Decrease) in Net Assets and Shares Resulting From Share Transactions*	77,064
Total Increase (Decrease) in Net Assets	58,488
Net Assets Held in Trust for Pool Participants	
Beginning of Period	287,858
End of Period	\$346,346

*Eliminations have not been made to compensate for the effect of intra-pool transactions through the money market account for deposits, withdrawals, interest received, purchases, sales, and reinvestments.

Diversified Bond Fund

Summary of Fair Value at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Interest Rates	Investment Maturities			
			Less than 1	In Years 1-5	6-10	11-15
Corporate Debt Instruments	\$48,658	4.375%-6.375%		\$34,571	\$9,437	\$4,650
U.S. Treasury Obligations	50,041	2.250%-6.500%	\$2,945	38,103	8,993	
Asset-Backed Student Loans*	7,683	3.390%		7,683		
U.S. Government Agency	55,634	2.830%-5.830%	7,902	35,355	12,377	
Mortgage-Backed Securities*	168,530	3.500%-7.000%	95	63,757	104,678	
Commercial Mortgage-Backed Securities*	9,812	5.396%-6.590%		3,041	6,771	
Money Market Mutual Fund	4,896	4.990%	4,896			
Total Debt Securities	345,254		15,838	182,510	142,256	4,650
Accrued Interest	2,445		123	1,487	802	33
Reinvestment of Securities Lending Collateral:						
Corporate Debt Instruments	92,380	5.120%-5.349%	24,185	68,195		
Asset-Backed Securities*	7,283	5.349%-5.463%		7,283		
Repurchase Agreements	174,777	5.355%-5.400%	174,777			
Total Investments	\$622,139		\$214,923	\$259,475	\$143,058	\$4,683

*Asset-backed and mortgage-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Diversified Bond Fund

Change in Fair Value For the Fiscal Year Ended June 30, 2006

(dollars in thousands)

Fair Value of Investments at June 30, 2006	\$347,699
Add: Proceeds of Investments Sold in FY2006*	263,251
Subtract: Cost of Investments Purchased in FY2006*	(339,745)
Subtract: Fair Value at June 30, 2005	(288,863)
Change in Fair Value of Investments During FY2006	(\$17,658)

*Eliminations have not been made to compensate for the effect of intra-pool transactions through the money market account for deposits, withdrawals, interest received, purchases, sales, and reinvestments.

Diversified Bond Fund

Concentration of Credit Risk at June 30, 2006

(dollars in thousands)

Issuer	Fair Value	Percent of Total DBF Investments
Federal Home Loan Mortgage Corporation	\$79,229	12.74
Federal National Mortgage Association	106,344	17.09
Goldman Corporation	31,804	5.11

Diversified Bond Fund

Credit Quality Ratings of Debt Securities at June 30, 2006

(dollars in thousands)

Investment Type	Fair Value	Aaa	Aa	A	Unrated
Corporate Debt Instruments	\$48,658	\$13,273	\$24,121	\$11,264	
Asset-Backed Student Loans	7,683	7,683			
U.S. Government Agency	55,634	55,634			
Mortgage-Backed Securities	168,530	168,530			
Commercial Mortgage-Backed Securities	9,812	9,812			
Money Market Mutual Fund	4,896				\$4,896
Reinvestment of Securities Lending Collateral:					
Corporate Debt Instruments	92,380	42,761	42,164	7,455	
Asset-Backed Securities	7,283	7,283			
Repurchase Agreements	174,777				174,777
Total Rated Investments	\$569,653	\$304,976	\$66,285	\$18,719	\$179,673

*Moody's or equivalent credit quality ratings have been used.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Diversified Bond Fund

Balances of Securities Lending Transactions at June 30, 2006

(dollars in thousands)

Securities Lent for Cash Collateral	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
Corporate Debt Instruments	\$14,048	\$14,651
U.S. Treasury Obligations	50,020	51,835
Mortgage-Backed Securities	147,045	149,815
U.S. Government Agency Obligations	56,375	58,056
Totals	\$267,488	\$274,357

At June 30, 2006, the DBF portfolio included two Federal Home Loan Bank securities with an aggregate fair value of \$16.3 million, which may be highly sensitive to interest rate changes. Both had floating

interest rates, were callable quarterly, and the quarterly coupon rates were based on the three-month LIBOR plus basis points.

NOTE 4. INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2006, consist of the following receivables and payables (dollars in thousands):

		Interfund Receivables							
Interfund Payables		General Fund	Trans- portation	Nonmajor Special Revenue	College and University	Nonmajor Enterprise	Internal Service	Fiduciary	Total
	General Fund		\$41	\$18	\$516	\$7	\$37		\$619
	Health and Welfare			56	594	45	660		1,355
	Transportation			89		272			361
	Nonmajor Special Revenue	\$628		1,743	1,017	8	37		3,433
	College and University	3,328					58		3,386
	Internal Service		6				44		50
	Fiduciary							\$1,572	1,572
	Total	\$3,956	\$47	\$1,906	\$2,127	\$332	\$836	\$1,572	\$10,776

Interfund receivables and payables generally consist of short-term receivables and payables for goods and services provided by one individual fund within the State to another. Most balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, or 3) payments between funds are made.

The receivables not expected to be collected within one year include \$0.3 million advanced by the General Fund to nonmajor special revenue funds and \$1.5 million advanced by nonmajor special revenue funds to other nonmajor special revenue funds.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, were as follows (*dollars in thousands*):

	Transfers In							Total
	General Fund	Health and Welfare	Pooled Endowment	Nonmajor Special Revenue	College and University	Loan	Internal Service	
General Fund		\$465,812	\$4,600	\$16,612	\$267,922	\$3,000	\$1,830	\$759,776
Health and Welfare				198				198
Transportation	\$84			15,712				15,796
Public School Endowment	23,087							23,087
Pooled Endowment	7,738				9,520			17,258
Nonmajor Special Revenue	67,035	16		474	100	2,600		70,225
Unemployment Compensation				5,096				5,096
Nonmajor Enterprise	32,445	1,850						34,295
Internal Service	17							17
Total	\$130,406	\$467,678	\$4,600	\$38,092	\$277,542	\$5,600	\$1,830	\$925,748

Interfund transfers are primarily performed for two reasons:

- 1) Taxes, fees, penalties, earnings, and other revenues are transferred from the agencies that initially collect them (such as the Tax Commission) to the General Fund and other funds as dictated by state law; and
- 2) Revenues are transferred from the fund that is statutorily required to collect them to the fund that is directed, by budgetary authorization, to spend them.

During fiscal year 2006 the following nonroutine statutory transfers were made:

- \$4.6 million from the General Fund to the Pooled Endowment fund to reallocate endowment and General Fund support for the Agricultural College Earnings Reserve and the Charitable Institutions Earnings Reserve.
- \$1.8 million from the General Fund to the General Services internal service fund for rent payments for space occupied by elected officials in the Capitol Mall area.

NOTE 5. NONCURRENT RECEIVABLES

Loans and notes receivable in the Transportation fund consist of long-term receivables from the sale of capital assets in the amount of \$0.3 million, which is not expected to be collected within one year.

Loans and notes receivable in the nonmajor special revenue funds consist of long-term receivables for energy and soil conservation projects in the amount of \$7.2 million, of which \$6.1 million is not expected to be collected within one year. Accounts receivable in the nonmajor special revenue funds amount to \$8.2 million, of which \$1.8 million relating to compliance penalties and restitution to crime victims who have suffered an economic loss is not expected to be collected within one year.

Loans and notes receivable in the Loan fund consist of long-term receivables for water project development, drinking water system improvements, and wastewater

facility enhancements in the amount of \$147.1 million, of which \$141.2 million is not expected to be collected within one year.

Loans and notes receivable in the College and University fund in the amount of \$24.4 million consist mainly of student loans, of which \$20.3 million is not expected to be collected within one year.

Loans and notes receivable for discretely presented component units in the amount of \$982.8 million consist mainly of long-term receivables from the sale of mortgages by the Idaho Housing and Finance Association and loans to municipalities by the Bond Bank Authority, of which \$764.7 million is not expected to be collected within one year.

Noncurrent interfund receivables are discussed in Note 4.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows (*dollars in thousands*):

Primary Government	Balances at July 1, 2005, As Restated	Increases	Decreases	Balances at June 30, 2006
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$900,100	\$22,565	(\$2,612)	\$920,053
Construction in Progress	599,979	250,780	(201,201)	649,558
Infrastructure	1,826,959	4,701	(2,492)	1,829,168
Historical Art and Collections	123			123
Total Capital Assets not Being Depreciated	3,327,161	278,046	(206,305)	3,398,902
Capital Assets Being Depreciated:				
Buildings and Improvements	565,443	53,837	(6,178)	613,102
Improvements Other Than Buildings	41,263	3,461	(1,329)	43,395
Machinery, Equipment, and Other	301,582	37,151	(21,520)	317,213
Infrastructure	494,339	120,917	(7,463)	607,793
Total Capital Assets Being Depreciated	1,402,627	215,366	(36,490)	1,581,503
Less Accumulated Depreciation for:				
Buildings and Improvements	(212,652)	(13,921)	1,512	(225,061)
Improvements Other Than Buildings	(10,688)	(1,973)	104	(12,557)
Machinery, Equipment, and Other	(184,547)	(24,821)	10,973	(198,395)
Infrastructure	(131,164)	(12,526)	1,295	(142,395)
Total Accumulated Depreciation	(539,051)	(53,241)	13,884	(578,408)
Total Capital Assets Being Depreciated, Net	863,576	162,125	(22,606)	1,003,095
Governmental Activities Capital Assets, Net	\$4,190,737	\$440,171	(\$228,911)	\$4,401,997

Beginning balances were adjusted for reclassification of construction in progress to infrastructure and for capital assets acquired in prior years.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Business-Type Activities:	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006
Capital Assets not Being Depreciated:				
Land	\$41,019	\$13,034	(\$126)	\$53,927
Construction in Progress	63,152	37,287	(55,152)	45,287
Historical Art and Collections	2,222	41	(140)	2,123
Intangible Assets	22,573	1,809		24,382
Total Capital Assets not Being Depreciated	128,966	52,171	(55,418)	125,719
Capital Assets Being Depreciated:				
Buildings and Improvements	781,861	54,278	(1,487)	834,652
Improvements Other Than Buildings	43,155	1,768	(143)	44,780
Machinery, Equipment, and Other	289,985	20,664	(10,536)	300,113
Total Capital Assets Being Depreciated	1,115,001	76,710	(12,166)	1,179,545
Less Accumulated Depreciation for:				
Buildings and Improvements	(260,675)	(20,509)	248	(280,936)
Improvements Other Than Buildings	(20,281)	(1,779)	143	(21,917)
Machinery, Equipment, and Other	(204,835)	(20,760)	9,507	(216,088)
Total Accumulated Depreciation	(485,791)	(43,048)	9,898	(518,941)
Total Capital Assets Being Depreciated, Net	629,210	33,662	(2,268)	660,604
Business-Type Activities Capital Assets, Net	\$758,176	\$85,833	(\$57,686)	\$786,323

Depreciation expense was charged to functions of the primary government as follows (*dollars in thousands*):

Governmental Activities:	
General Government	\$8,118
Public Safety and Correction	6,494
Health and Human Services	1,893
Education	2,237
Economic Development	25,836
Natural Resources	7,188
In addition, depreciation on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets	1,475
Total Depreciation Expense for Governmental Activities	\$53,241
Business-Type Activities:	
College and University	\$42,267
Loan	137
Nonmajor Enterprise	644
Total Depreciation Expense for Business-Type Activities	\$43,048

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Discretely Presented Component Units	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006
Capital Assets not Being Depreciated:				
Land	\$21,532	\$16,717	(\$17,531)	\$20,718
Total Capital Assets not Being Depreciated	<u>21,532</u>	<u>16,717</u>	<u>(17,531)</u>	<u>20,718</u>
Capital Assets Being Depreciated:				
Buildings and Other Improvements	21,728	122		21,850
Improvements Other than Buildings	250	40		290
Machinery, Equipment, and Other	3,370	39	(46)	3,363
Total Capital Assets Being Depreciated	<u>25,348</u>	<u>201</u>	<u>(46)</u>	<u>25,503</u>
Less Accumulated Depreciation for:				
Buildings and Other Improvements	(5,419)	(606)		(6,025)
Improvements Other than Buildings	(199)	(19)		(218)
Machinery, Equipment, and Other	(3,004)	(176)	45	(3,135)
Total Accumulated Depreciation	<u>(8,622)</u>	<u>(801)</u>	<u>45</u>	<u>(9,378)</u>
Total Capital Assets Being Depreciated, Net	<u>16,726</u>	<u>(600)</u>	<u>(1)</u>	<u>16,125</u>
Component Unit Activities Capital Assets, Net	<u>\$38,258</u>	<u>\$16,117</u>	<u>(\$17,532)</u>	<u>\$36,843</u>

NOTE 7. RETIREMENT PLANS

Summary of Plans

The Public Employee Retirement System of Idaho (PERSI) administers the Public Employee Retirement Fund Base Plan (PERSI Base Plan), the Firefighters' Retirement Fund (FRF), and the defined contribution retirement plans. A retirement board appointed by the Governor and confirmed by the State Senate manages PERSI, which includes selecting the funding agents and establishing funding policy. The Idaho Judicial Department, under the direction of the Idaho Supreme Court, administers the Judges' Retirement Fund (JRF). The Teachers' Insurance and Annuity Association-College Retirement Equities Fund administers an Optional Retirement Plan (ORP) for the colleges and universities. The Idaho Department of Commerce and Labor administers a closed retirement plan for certain employees of the Department hired prior to October 1, 1980.

PERSI issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, ID 83720-0078.

Each of the PERSI-administered plans, the JRF, the ORP, and the Labor Retirement are discussed individually below.

A. Public Employee Retirement Fund Base Plan

Plan Description

Organization and Purpose

The PERSI Base Plan is a cost-sharing, multiple-employer defined benefit retirement plan. It is governed by *Idaho Code*, Sections 59-1301 through 59-1399.

Membership

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the PERSI Base Plan. Participation is mandatory for state employees who normally work 20 or more hours a week for five or more consecutive months. As of June 30, 2006, the number of participating employer units is 692 and actual benefit recipients and members are as follows:

Retirees and Beneficiaries	28,438
Vested Terminated Employees	8,948
Current Active Employees	<u>64,762</u>
Total	<u>102,148</u>

Benefits

The benefit structure is based on each member's years of service, age, and highest average salary. In addition, benefits are provided for disability or death and to survivors of eligible members or beneficiaries. Members

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

are eligible for retirement benefits upon attainment of the age specified for their employment classification or a combination of age plus service. The annual service retirement allowance for each month of credited service is 2 percent (2.3 percent for police) of the average monthly salary for the highest consecutive 42 months.

The benefit payments are calculated using a benefit formula adopted by the Idaho Legislature. The PERSI Base Plan is required to provide a 1 percent minimum cost of living increase per year provided the Consumer Price Index increases 1 percent or more. The PERSI Retirement Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6 percent, whichever is less; however, any amount above the 1 percent minimum is subject to approval by the Legislature.

Summary of Significant Accounting Policies

The PERSI Base Plan's basic financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as additions to net assets when due and receivable; investment income is recognized when earned; and benefit payments, refunds, and other expenses are recorded when the benefits are due and payable in accordance with the Plan's terms.

Investments are presented at fair value. Purchases and sales are recorded at the trade date. The fair value of investments is based on published market prices and quotations from major investment brokers when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of longer-term real estate investments has been estimated based on PERSI's consultant assessments and/or independent appraisals. Short-term investments are reported at market value when published market prices and quotations are available or at cost plus accrued interest, which approximates market value. Investments held by the PERSI Base Plan and the FRF are commingled.

Funding Policy

Contributions and Vesting

Funding policy for the PERSI Base Plan is determined by the Board as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due.

Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The PERSI Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period permitted under *Idaho Code*, Section 59-1322, is 25 years. The payroll for covered employees was approximately \$2.3 billion.

Employer contributions required and paid were \$212.6 million, \$236.1 million, and \$250.8 million, for the years ended June 30, 2004, 2005, and 2006, respectively. The State participates as an employer in the PERSI Base Plan. State contributions required and paid were \$69.3 million, \$76.2 million, and \$83.1 million, for the years ended June 30, 2004, 2005, and 2006, respectively.

Actuarial valuations are performed annually. The last valuation was performed as of July 1, 2006. Normal cost is 14 percent of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.8 percent of covered payroll.

The contribution rates for the year ended June 30, 2006, were as follows:

Employee Group	Employer	Employee
PERSI		
General	10.4%	6.2%
Police and Fire	10.7%	7.7%
ORP		
Colleges and Universities	3.0%	N/A
Junior Colleges	3.8%	N/A

After five years of credited service (five months for elected or appointed officials) members become fully vested in retirement benefits earned to date. Upon termination of employment accumulated member contributions plus interest accrued at 10.2 percent January 1 through June 30, 2006; and 17.5 percent July 1 to December 31, 2005; compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

Funding

Contributions from members and employers, in addition to earnings from investments, fund PERSI Base Plan benefits. Member and employer contributions are a percentage of applicable member compensation. As defined by state law, member contribution rates are a percentage of the employer contribution rate. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of PERSI's Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of PERSI. Costs of administering the plans are financed through the contributions and investment earnings of the system.

B. Firefighters' Retirement Fund

Plan Description

The FRF is a cost-sharing, multiple-employer, defined benefit retirement plan. The FRF is governed by *Idaho Code*, Sections 72-1401 through 72-1472. The FRF is administered by the PERSI, which is part of the primary government. However, the State does not employ firefighters participating in the FRF; therefore, no employer costs are disclosed. As of June 30, 2006, there were 22 participating employer units, all consisting of local fire departments. The significant accounting policies are the same as detailed for the PERSI Base Plan. Complete FRF disclosures may be found in the PERSI financial statements.

C. Defined Contribution Retirement Plans

Plan Description

Organization and Purpose

The defined contribution retirement plans include the 401(k) and the 414(k). The plans are governed by *Idaho Code*, Sections 59-1301 through 59-1399. The 414(k) plan was established for gain sharing allocations from the PERSI Base Plan. The gain-sharing amount (if any) is based on funding levels in the PERSI Base Plan.

Membership

The 401(k) plan is open to all active PERSI Base Plan members and was established February 1, 2001. Eligibility for the 414(k) gain sharing requires twelve months of active PERSI membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible PERSI Base Plan members who were active as of June 30, 2000, and eligible to receive gain sharing contributions, received an allocation. The plans have 692 employer units eligible to have participating

employees. As of June 30, 2006, the plans had 47,053 participating employees.

Summary of Significant Accounting Policies

The assets of the 401(k) and the 414(k) plans are commingled for investment and recordkeeping purposes. The other significant accounting policies are the same as the PERSI Base Plan.

Funding Policy

Contributions

Beginning in January 2002 employees in the 401(k) plan could make tax-deferred contributions up to 100 percent of their gross salary less deductions and subject to the IRS annual contribution limit. Participants direct their investment mix without restriction and may elect to change their salary deferral. On May 1, 2001, the 401(k) plan became open to voluntary employer matching contributions at rates determined by the employers. Employers and participants in the plans contributed \$0.3 million and \$25.9 million, respectively, during the fiscal year ended June 30, 2006.

Funding

PERSI entered into a contract with ACS HR Solutions for plan services. The eleven investment options are mutual or collective funds and include the PERSI Total Return Fund, seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in one percent increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI Total Return Fund is made. The administrative expenses of the plans are paid to ACS and funded by the PERSI Base Plan.

D. Judges' Retirement Fund

Plan Description

Organization and Purpose

The JRF is a single-employer defined benefit retirement plan, which provides retirement benefits for Idaho Supreme Court justices, court of appeals judges, and district court judges, hereinafter referred to as "members." The Judicial Department, under the direction of the Idaho Supreme Court, administers the JRF. The JRF is guided by *Idaho Code*, Sections 68-501 through 68-506; and *Idaho Code*, Title 1, Chapter 20; and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The JRF issues a publicly available financial report that includes financial statements and required supplementary

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

information. That report may be obtained by writing to the Idaho Supreme Court, P.O. Box 83720, Boise, ID 83720-0101.

Membership

As of June 30, 2006, the JRF has 60 retired members or beneficiaries collecting benefits, 8 terminated members entitled to but not yet receiving benefits, and 48 active members.

Benefits

The benefit structure is based on each member's years of service and compensation. In addition, benefits are provided for disability or death and to survivors of eligible members. The benefit payments for the JRF are calculated using a benefit formula adopted by the Idaho Legislature, effective July 1, 2000. Members serving prior to but not on July 1, 2000, are paid under option A. Members serving on or after July 1, 2000, may choose between two benefit payment options, A or B. Both options are based upon compensation of the highest office in which the member served, with benefits for option A accumulating as follows:

For the first ten years of service, benefits are credited at 5 percent per year of member's compensation. For the remaining years of service, benefits are credited at 2.5 percent per year of member's compensation.

In addition to the above benefits, option B includes:

Benefits credited at 2.5 percent per year for senior judges with five years of service.

The maximum benefit is 75 percent of compensation. Surviving spouses will be entitled to benefits equal to 50 percent of the member's calculated benefit.

Summary of Significant Accounting Policies

The JRF's financial statements are prepared using the accrual basis of accounting and flow of economic resources measurement focus. Member and Department contributions are recognized as revenues in the period in which the member's services are performed. Investment income and filing fees are recognized when earned. Benefit payments and refunds are recognized when the obligation is due and payable in accordance with terms of the plan. Other expenditures are recognized when the obligation is incurred.

The JRF's investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers when available. Short-term investments are reported at market value when published market prices and quotations are available or at cost plus accrued interest, which approximates market value. Purchases and sales are recorded at the trade date.

Funding Policy

Contributions and Vesting

Members and the Judicial Department contribute to the JRF during the members' first 20 years of employment. Member and Department contributions are a percentage of member compensation as defined by state law. JRF policy provides for Department and member contributions at 7 percent and 6 percent, respectively, of annual covered payroll. The payroll for members covered by the JRF was approximately \$4.5 million for the fiscal year ended June 30, 2006. In addition, specified court-filing fees in civil court actions are dedicated to the JRF.

Actuarial valuations of the funding status and required contribution levels are generally performed biennially using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The unfunded actuarial liability created by this method is amortized as a level percentage of salary over 25 years on an open basis. The actuarial assumptions include a 7.5 percent investment rate of return, projected salary increases of 3 percent, and postretirement benefit increases of 3 percent. Based on the most recent actuarial valuation as of June 30, 2006, the annual required contribution (ARC) is \$2.3 million. Net pension obligation increased from \$0.6 million in 2005 to \$1.1 million in 2006 due to the annual pension cost exceeding the employer's contributions. Total Judicial Department and member contributions to the pension plan for the fiscal year ended June 30, 2006, amounted to \$2.1 million, of which \$1.5 million was received from filing fees and \$0.3 million each from the Judicial Department and its members.

The State's annual pension cost and net pension obligation to JRF for the current year and two preceding years are as follows:

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Idaho Judges' Retirement Fund

Annual Pension Cost and Net Pension Obligation

(dollars in thousands)

	2004	2005	2006
Annual Required Contribution (ARC)	\$2,086	\$2,099	\$2,284
Interest on Net Pension Obligation (NPO)	9	28	47
Adjustment to ARC	(10)	(34)	(56)
Annual Pension Cost (APC)	2,085	2,093	2,275
Employer Contributions Made	(1,834)	(1,847)	(1,825)
Increase (Decrease) in NPO	251	246	450
Prior Year NPO	124	375	621
Current Year NPO	\$375	\$621	\$1,071
Percentage of APC Contributed	88.0%	88.2%	80.2%

Members become fully vested in their retirement benefits after four years of credited service. If a member terminates from the retirement plan prior to four years of service, the member's contributions plus 6.5 percent per annum will be returned. Members are eligible for retirement benefits upon meeting one of the following criteria:

- attainment of age 65 and a minimum of 4 years of service
- attainment of age 60 and a minimum of 10 years of service
- attainment of age 55 and a minimum of 15 years of service, or
- after 20 years of service

Funding

The JRF's benefits are funded by contributions from members and the Judicial Department, earnings from investments, and court filing fees. Costs of administering the JRF are financed through the contributions and investment earnings of the JRF.

E. College and University Optional Retirement Plan

Plan Description

Organization and Purpose

Effective July 1, 1990, the State Legislature authorized the Idaho State Board of Education to establish the Optional Retirement Plan (ORP), a defined contribution plan for college and university faculty and exempt employees. The ORP is governed by *Idaho Code*, Sections 33-107A and 33-107B. Vendor options include Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company. The Plan is

administered by TIAA-CREF, and they may be reached at (800) 842-2009.

Membership

New faculty and exempt employees hired July 1, 1990, or thereafter, automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990, had a one-time opportunity to enroll in the ORP.

Funding Policy

Contributions and Vesting

The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State. The contribution requirement and amount paid for the fiscal year ended June 30, 2006, was \$27.4 million, which consisted of \$14.4 million from the colleges and universities and \$13.0 million from employees. These contributions represented approximately 7.7 percent and 7 percent of covered payroll from the universities and employees, respectively.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age (62 years of age for University of Idaho participants).

F. Department of Labor Retirement Plan

Plan Description

Organization and Purpose

This stand-alone, insured retirement plan provides retirement benefits for certain employees (and their beneficiaries) of the Idaho Department of Commerce and Labor hired prior to October 1, 1980. The Plan is governed by *Idaho Code*, Section 72-1335, and U.S.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Department of Labor Rules and Regulations. The Labor Retirement Plan is administered by the Idaho Department of Commerce and Labor, which may be reached at (208) 332-3570 ext. 3228.

Membership

As of June 30, 2006, the number of Idaho Department of Commerce and Labor members and actual benefit recipients are as follows:

Retirees and Beneficiaries	399
Inactive Vested Employees	22
Current Active Employees	<u>55</u>
Total	<u>476</u>

Benefits

The retirement benefit payments are calculated using a benefit formula established by the Plan. This monthly benefit is payable for life, through an annuity purchased for each retired employee from Prudential Insurance Company, with 120 payments guaranteed to the annuitant or their survivor. Once an annuity is purchased, Prudential assumes the risk for the insured benefit and has guaranteed to pay benefits in the event the trust funds are depleted. The Plan provides that the contributions paid by the employer to Prudential are in complete discharge of the employer's financial obligation under the Plan. At September 30, 2005 (the

last actuarial valuation date), there was no unfunded liability. The normal service retirement allowance is the average annual salary for the highest three consecutive years times 2 percent for each year of credited service.

The present value of future retirement benefits is \$129.1 million. The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for 2005. Net assets available for benefits (at fair value) are \$177.6 million.

Funding Policy

Contributions

Until August 1999, 7 percent of payroll was contributed by the employee. The employee contribution was required by the Plan and was therefore made even though it was not actuarially needed to finance future benefits. In August 1999 the U.S. Department of Labor approved a plan change to allow the plan actuary to determine the employee contribution rate. Employee contributions were then suspended through September 30, 2006, consistent with the most recent actuarial valuations. This valuation certified that the total contribution rate should remain at zero through September 30, 2007. The total employer contribution for federal fiscal year 2005 was zero. The employer payments have been fully funded by federal revenues from the U.S. Department of Labor.

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The State funds or partially funds the following postemployment benefits relating to health, disability, and life insurance. *Idaho Code*, Sections 67-5760 to 67-5767 and 72-1335, establishes the benefits and contribution obligations.

Retiree Health Insurance Subsidy

A retired officer or employee of a state agency, department, or institution, including an elected official, who is eligible to retire under the Public Employee Retirement System of Idaho (PERSI) and whose unreduced PERSI monthly benefit at the time of retirement would meet or exceed the monthly cost of single retiree health insurance coverage, may elect to have the State's retiree health insurance coverage for themselves and eligible dependents. To be eligible, state employees must enroll within sixty days of the date of their retirement and must have ten or more years (20,800 or more hours) of credited state service in a state-sponsored retirement system.

Retirees eligible for medical health insurance pay the majority of the premium cost; however, the retiree plan costs are subsidized by the active employee plan. In fiscal year 2006 the State contributed eight dollars per active non-retired employee per month and the active employees contributed an equal amount, which went to a reserve to offset the monthly costs of the retirees' benefits. Other than an aging population, no significant matters affect comparability of the State's costs from one year to the next. The State's annual contribution towards the retiree premium cost was approximately \$1.7 million; the active employees contributed an equal amount towards the retiree subsidy. The State's contribution was approximately 10.7 percent of the total cost of the retiree plan of \$16.3 million. A total of 3,185 retired employees are enrolled and receiving benefits as of June 30, 2006. The Legislature has not set aside any assets to pay future benefits; the State funds this benefit on a pay-as-you-go basis.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

Long-Term Disability Benefits

Long-term disability benefits are available for active employees who become disabled, generally up to a maximum age of 70. Disabled employees are defined as being unable to perform each of the substantial and material duties of the job for which they were hired for the first 30 months of disability, or any job thereafter for which they are reasonably qualified by experience, education, or training. Additionally, to qualify for long-term disability, the waiting period of the later of 26 weeks of continuous total disability or exhaustion of accrued sick leave must be met. The gross benefit equals 60 percent of monthly salary or \$3,000 (whichever is smaller). The benefit does not increase with inflation and may be offset by other disability benefits from Social Security, Workers' Compensation, or PERSI. The State pays 100 percent of the cost of the benefit.

Beginning in fiscal year 2004 long-term disability benefits are insured by Principal Life Insurance Company. Claims for prior fiscal years are advance-funded by the State on an actuarially determined basis, using the one-year term cost method. Each fiscal year the State funds the estimated actuarial present value of benefits for disabilities incurred in that fiscal year. In addition, funding for disabilities incurred in prior fiscal years is adjusted periodically to reflect unanticipated changes in the number of claimants or benefit levels. Significant actuarial assumptions are based on an interest rate of 5.5 percent and the 1987 Commissioner's Group Disability Table.

Plan assets are valued at cost. Based on the most recent actuarial valuation as of June 30, 2005, net assets available for future payments were \$17.3 million. The actuarial accrued liability for disabilities incurred in fiscal year 2003 and all prior fiscal years was \$9.7 million (\$14.1 million on an undiscounted basis) and there was no unfunded actuarial accrued liability. The State's actuarially required and actual contribution for the fiscal year ending June 30, 2005, was zero. As of June 30, 2005, there were 213 disabled employees receiving this benefit.

Life Insurance for Disabled Employees

The State pays 100 percent of the cost of basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. The life insurance benefit amount is generally 100 percent of annual salary, but not less than \$20,000. The benefit does not increase with inflation.

The State holds a reserve to self-fund the life claims for disabled employees in the event of contract termination with the Principal Life Insurance Company. This reserve is actuarially determined using the one-year-term cost method, and it is funded periodically by the State. Significant actuarial assumptions are based on an interest rate of 5.5 percent and the 1970 Intercompany Group Life Disability Valuation Table.

Plan assets are valued at cost. As of June 30, 2005, the net assets available for future payments were \$5.3 million. The actuarial accrued liability for disabilities incurred in fiscal year 2005 and all prior fiscal years was \$7.0 million (\$9.5 million on an undiscounted basis) and the unfunded actuarial accrued liability was \$1.7 million. An actuarially required contribution was not determined, and no contribution was made for the fiscal year ending June 30, 2005. At year-end there were 549 disabled employees receiving this benefit.

Health Insurance for Disabled Employees

For up to 30 months following the date of disability, the State pays 100 percent of the State's share of medical/dental premiums while the employee remains disabled. The employee is required to pay the normal active employee contribution for these benefits.

Each fiscal year, the State advance-funds the estimated actuarial present value of benefits for disabilities incurred in that fiscal year. In addition, funding for disabilities incurred in prior fiscal years is adjusted periodically to reflect unanticipated changes in number of claimants or benefit levels. The reserves and funding amounts are actuarially determined in accordance with the one-year-term cost method. Significant actuarial assumptions are based on a medical trend rate of 15 percent, a discount rate of 4 percent, and a standard disability termination table.

Plan assets are valued at cost, and as of June 30, 2005, the net assets available for future payments were \$0.2 million. The actuarial accrued liability for disabilities incurred in fiscal year 2005 and all prior fiscal years was \$1.19 million (\$1.24 million on an undiscounted basis), and the unfunded actuarial accrued liability was \$1.0 million.

The State's actuarially required contribution for the period was \$5.35 per employee per month and actual contributions for the period were \$5.35 per employee per month. As of June 30, 2005, there were 138 disabled employees receiving this benefit.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Postemployment Benefits for Selected Employees

Boise State University, Idaho State University, Lewis-Clark State College, and Eastern Idaho Technical College provide basic life insurance for life for certified retired employees. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. Eligible retirees receive insurance equal to 100 percent of the annual salary at retirement. Currently 583 retired employees are receiving this benefit.

The Judicial Department provides basic life insurance for life for all retired Idaho Supreme Court Justices, District Court Judges, Magistrate Judges, and Court Administrators. Eligible retirees receive insurance equal to 100 percent of the annual salary of the position from which they retired. Currently 96 retired employees are receiving this benefit.

The Department of Commerce and Labor provides basic life insurance for life for all certified retired employees. Eligible retirees receive insurance equal to 50 percent of the annual salary at retirement, not to exceed \$5,000 of insurance. Currently 436 retired employees are receiving this benefit.

The above-listed employers pay 100 percent of the cost of these benefits, which are funded on a pay-as-you-go basis. A total of \$0.6 million was expended in fiscal year 2006.

The University of Idaho provides post-retirement medical, dental, and life insurance coverage for life to employees who meet certain age and service requirements. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. This benefit has not been offered to employees hired on or after January 1, 2002. The University partially funds these obligations by depositing 1.5 percent of employee gross payrolls into a reserve. The University had expenses totaling \$2.9 million in fiscal year 2006 to purchase insurance for 714 retired employees. As of June 30, 2006, approximately \$6.3 million is available to fund these obligations.

Other Employee Benefits

School districts and state agencies provide for the payment of certain postretirement health insurance premiums. The Public Employee Retirement System of Idaho (PERSI) administers the Sick Leave Insurance Reserve Fund on behalf of the employers. This benefit is considered a termination payment for employees who retire and is reported as a trust fund. The assets are presented at fair value.

Idaho Code, Sections 67-5333(2), 33-1216, and 33-1228 governs the program which provides for the payment of postretirement health benefits offered by the employer. The employers finance the program by remitting a percentage of payroll to PERSI to cover future insurance premiums. The rate of contributions as a percent of covered salary at June 30, 2006, was 0.65 percent for State employees and 1.15 percent for school district employees.

The amount available to pay benefits is based on unused accumulated sick leave at an employee's retirement date. The benefit for school district employees is limited to one-half of their eligible sick leave balance and rate of compensation at retirement. State employees may use one-half of sick leave hours accrued up to the allowable maximum (as shown below) multiplied by their rate of compensation at retirement.

Credited Hours of State Service	Maximum Allowable Hours
0 – 10,400 (0-5 years)	420
10,401 – 20,800 (5-10 years)	480
20,801 - 31,200 (10-15 years)	540
31,201 + (15 years or more)	600

Postretirement health insurance premiums are paid from the retiree's sick leave account until the account balance is exhausted.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9. RISK MANAGEMENT

The State maintains a combination of commercial and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through the Risk Management and Group Insurance internal service funds and various outside entity insurance providers.

The Risk Management fund manages property and general liability risk. The Fund also finances and accounts for other risks not covered by Group Insurance and various outside entity insurance providers. General liability claims are self-insured up to the *Idaho Tort Claims Act* maximum of \$500,000 for each occurrence. Property damage claims are self-insured for up to \$250,000 per occurrence annually. Comprehensive collision and physical damage to covered vehicles are self-insured for actual cash value. The State purchases commercial insurance for claims not self-insured by the above coverages and for other identified risks of loss, including workers' compensation insurance.

The Group Insurance fund is used to account for and finance life, health, and disability insurance programs. Long-term disability benefits within Group Insurance are partially insured through others, but the majority is self-insured. The liability for self-insurance claims has been actuarially determined. Policy claim liabilities are presented in the Group Insurance fund and are composed of the liability for self-insured claims and the amounts required to fund premium payments of life and health coverage for disabled employees. Life, short-term disability, and health insurance programs are experience rated and fully insured. However, when the claims exceed 100 percent of the annual premium paid to the insurer, the State is responsible for up to an additional 10.6 percent of the annual premiums for medical, 10 percent for dental, and 10 percent for life and disability coverage. The insurance carrier assumes the risk of loss for claims above the contractual ceilings. The amount for which the State is responsible is accounted for and

presented as restricted net assets in the Group Insurance fund. The State also maintains program and premium stabilization balances in the event restricted equity is exhausted. These amounts are included with unrestricted net assets in the Group Insurance fund.

All state entities may participate in the Risk Management and Group Insurance programs. Payments are made to the Risk Management fund based on actuarial estimates, loss experience, exposure, and asset value covered. Payments made to the Group Insurance fund are based on actuarial estimates of the amounts needed to pay for negotiated coverage and projected claims experience. Claim settlements have not exceeded insurance coverage for each of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities for Risk Management include claims that have been incurred but not reported; incremental claim adjustment expenses related to specific claims; claim adjustment costs, both allocated and unallocated; and any anticipated subrogation receipts. At fiscal year-end \$18.5 million of unpaid claim liabilities for Risk Management are presented at present value, \$16.0 million, using a 5 percent discount interest rate. Unpaid claim liabilities of \$24.9 million for Group Insurance are presented at present value, \$17.9 million, using a 5.5 percent discount rate.

The State records its premium liability using discounted amounts provided by actuaries. The discounted liabilities take into account anticipated investment income. Changes in policy claim liabilities for the fiscal years ending June 30, 2005 and 2006, are as follows (*dollars in thousands*):

	Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimate	Claims Payments	Ending Balance
Risk Management	2005	\$11,828	\$7,619	(\$2,089)	\$17,358
	2006	\$17,358	\$2,738	(\$4,117)	\$15,979
Group Insurance*	2005	\$23,346	(\$3,441)	\$0	\$19,905
	2006	\$19,905	(\$2,010)	\$0	\$17,895

*Group Insurance amounts are based on the most recent actuarial study for fiscal year 2005 and estimates for fiscal year 2006.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10. LEASES

A. State as Lessee

The State leases office buildings, vehicles, and office equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered noncancelable for financial reporting purposes. Any escalation clauses, sublease rentals, executory costs, and contingent rentals are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating Leases

Operating leases are leases that do not qualify for capitalization; therefore, the lease agreements are not reflected as assets in the State's balance sheet. Operating lease payments are recorded as expenditures

or expenses of the related funds when paid or incurred. The total operating lease expenditures/expenses for fiscal year 2006 were \$22.0 million for the primary government and \$47,957 for component units. Operating leases contain various renewal options, as well as some purchase options.

Capital Leases

Capital leases are leases the State has entered into that are, in substance, a purchase. At the date of acquisition, the assets are valued on the balance sheet at the present value of the future minimum lease payments. Capital lease assets and obligations are recorded in the respective funds as capital assets and long-term obligations. Interest expense for capital leases is not capitalized. Amortization of assets acquired under capital lease is included with depreciation expense.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 2006, are as follows (dollars in thousands):

Fiscal Year	Operating Leases		Capital Leases			
	Primary Government	Component Units	Governmental Activities	Business-Type Activities With Third Parties	Business-Type Activities With Component Unit	Total Capital Leases
2007	\$21,897	\$14	\$1,933	\$511	\$431	\$2,875
2008	17,392	7	1,922	463	426	2,811
2009	12,016	9	1,827	416	425	2,668
2010	10,067	9	1,419	416	423	2,258
2011	7,579	9	1,236	128	430	1,794
2012 - 2016	12,067	61	5,613		2,151	7,764
2017 - 2021	4,706	87	4,744		404	5,148
2022 - 2026	4,978	120	3,592			3,592
2027 - 2031		95	968			968
2032 - 2036		46				
Total Payments	\$90,702	\$457	23,254	1,934	4,690	29,878
Less Imputed Interest			(9,325)	(225)	(1,268)	(10,818)
Total Present Value of Minimum Lease Payments			\$13,929	\$1,709	\$3,422	\$19,060

The Department of Commerce and Labor intends to cancel a capital lease on December 31, 2006. The asset acquired under this capital lease is a building with a fiscal year-end book value of \$0.6 million. Future minimum lease payments amount to \$4.2 million with

\$3.4 million representing imputed interest. This leaves a fiscal year-end liability of \$0.8 million. Upon cancellation the asset and liability will be removed with a gain or loss recognized for the difference. No termination fees are expected upon cancellation.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Assets under capital lease as of June 30, 2006, are as follows (*dollars in thousands*):

	Governmental Activities	Business-Type Activities	Capital Assets Under Capital Leases
Land	\$166		\$166
Buildings and Improvements	13,089	\$7,068	20,157
Improvements Other Than Buildings	609		609
Machinery, Equipment, and Other	2,609	3,015	5,624
Total Capital Leases	\$16,473	\$10,083	\$26,556

B. State as Lessor

Non-state parties rent land and buildings under operating leases from the Lava Hot Springs Foundation, the

Departments of Correction, Health and Welfare, Juvenile Corrections, Lands, and Parks and Recreation. At June 30, 2006, the State leased the following (*dollars in thousands*):

Asset Class	Fair Market Value at Date of Acquisition	Accumulated Depreciation	Current Book Value
Land	\$2,124		\$2,124
Buildings and Improvements	1,491	(\$680)	811
Improvements Other Than Buildings	10		10
Total	\$3,625	(\$680)	\$2,945

The following is a schedule of minimum future rentals for operating leases as of June 30, 2006 (*dollars in thousands*):

Fiscal Year Ending June 30	Total
2007	\$7,651
2008	7,001
2009	6,449
2010	5,989
2011	3,479
2012 - 2016	4,320
2017 - 2021	695
2022 - 2026	711
Total Minimum Future Rentals	\$36,295

NOTE 11. SHORT-TERM DEBT

Primary Government

Idaho Code, Section 63-3201, authorizes the State Treasurer, on approval of the State Board of Examiners, to borrow money in anticipation of current year tax receipts. The State uses external tax anticipation notes to cover the shortfall between General Fund revenues and disbursements during the year. General Fund revenues are received in relatively uneven amounts throughout the fiscal year due to various factors regarding the timing of receipts, such as the collection of individual income

taxes in April, large sales tax receipts in January as a result of holiday shopping, and quarterly collections of corporate income tax. During fiscal year 2006 the State anticipated that it would receive 44.2 percent of General Fund revenues in the first six months; however, disbursements during the same period were expected to account for 57.2 percent of total expenditures, mainly due to public school aid and Health and Welfare expenditures. The notes sold on the open market were issued on July 1, 2005, and redeemed on June 30, 2006.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Discretely Presented Component Unit

The Idaho Housing and Finance Association utilizes short-term borrowing in the form of commercial paper to provide funds to purchase single-family mortgage loans

on an interim basis as well as to finance multi-family construction loans. As of June 30, 2006, the Association has commercial paper outstanding maturing within 30 days from date of issue, with a weighted average interest rate of 5.1 percent.

Short-term debt activity for the year ended June 30, 2006, was as follows (*dollars in thousands*):

	Beginning Balance	Issued	Redeemed	Ending Balance
Primary Government				
External Tax Anticipation Notes	\$0	\$260,000	\$260,000	\$0
Discretely Presented Component Unit				
Commercial paper	\$15,000	\$180,000	\$180,000	\$15,000

NOTE 12. BONDS/NOTES/OTHER LONG-TERM LIABILITIES

A. Compensated Absences

Idaho's compensated absences policy permits employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits. Employees earn vacation based on hours worked and years of service; compensatory time earned is based on hours worked in excess of forty hours per week. Upon termination of employment, an employee is paid for unused vacation time and administrative leave. All employees covered by the Fair Labor Standards Act are paid compensatory balances at termination.

A liability is accrued for all vacation pay and compensatory time when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The liability is based on the pay rate in effect at the balance sheet date.

Idaho does not accumulate a liability for sick leave since the State has a policy to not pay amounts when employees separate from service. However, upon retirement 50 percent of an employee's unused sick leave value (not to exceed 600 hours) is reported to the Public Employee Retirement System of Idaho and accumulated in a trust fund to purchase health insurance for the retiree. The liability is included as part of the compensated absences liability on the government-wide statements.

The State assumes a first-in, first-out flow for compensated absence balances, except for compensated absence balances related to retiree health insurance, of which the majority is due in more than one year. Presentation of compensated absences requires the use of

certain estimates and calculations based on current year activity and historical data.

B. Revenue Bonds

Primary Government

The Idaho State Building Authority issued bonds to finance construction or acquisitions of facilities for lease to state agencies subject to prior legislative approval. Bonds are direct obligations of the Authority, payable from and secured by a pledge of lease revenues and other funds and reserves held under bond resolutions. The Authority has surety bonds in amounts up to the reserve requirements for all outstanding bonds. No amounts were outstanding at June 30, 2006, under these surety bonds.

The State's colleges and universities have a number of outstanding bonds for the primary purpose of funding various construction projects. University bonds are secured by student fees, the sale of goods and services, grants, contributions, and certain other revenues.

The Idaho Water Resource Board is authorized to issue and sell revenue bonds under provisions of *Idaho Code*, Sections 42-1739 through 42-1749. Bonds in the amount of \$5.3 million were issued in 2006 to refund the Series 1999 bonds, which funded the Dworshak Hydroelectric project. The revenues derived from this project are pledged in order to pay the costs of operating and maintaining the water project. These bonds are not considered general obligations of the State. The bonds are secured by a reserve fund with the trustee bank. The reserve requirement is equal to the lesser of 125 percent

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

of the annual debt service, the maximum annual debt service, or 10 percent of the outstanding principal of the bonds. An amount equal to 125 percent of the current year's debt service payment is accumulating in the Loan fund for debt service payment in the event the pipeline to the generation plant is out of service.

Discretely Presented Component Units

The Idaho Housing and Finance Association is authorized to issue and sell revenue bonds under provisions of *Idaho Code*, Sections 67-6201 through 67-6226. The Association issued bonds to finance various single and multi-family housing developments and the construction of highway transportation projects. The bonds have been issued in a variable rate mode. The bulk of the bonds are re-marketed on a weekly basis at the prevailing interest rates. The multi-family housing bonds are limited obligations of the Association and are secured by the respective mortgages on each development as well as a lien on all revenues as defined in each respective bond indenture. The transportation

bonds are secured by future federal highway funds. The bonds are either special or general obligations of the Association and do not constitute a debt of the State or any of its political subdivisions.

The State's college and university foundations have a number of bonds outstanding for the purpose of funding various construction projects. Foundation bonds are secured by various revenue sources, including donations, pledges, and other funds.

The Idaho Bond Bank Authority is authorized to issue and sell revenue bonds under provisions of *Idaho Constitution*, Article VIII, Section 2A, and *Idaho Code*, Sections 67-8701 through 67-8728. The bonds are used by the Authority to make loans to Idaho cities in order to finance the construction of public water and/or sewer improvements. The bonds are limited obligations of the Authority and do not constitute a debt of the State or any of its political subdivisions.

Revenue bond debt service requirements to maturity are as follows (*dollars in thousands*):

Fiscal Year Ending June 30	Primary Government							
	Governmental Activities		Business-Type Activities					
	Nonmajor		College and		Loan		Total	
	Special Revenue		University					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$9,015	\$9,196	\$11,890	\$15,154	\$290	\$309	\$21,195	\$24,659
2008	9,025	8,913	12,255	14,634	305	294	21,585	23,841
2009	8,600	8,619	12,840	14,084	325	277	21,765	22,980
2010	7,605	8,325	13,450	13,506	340	259	21,395	22,090
2011	6,650	8,052	12,840	12,897	360	240	19,850	21,189
2012-2016	35,005	35,951	71,525	54,565	2,130	869	108,660	91,385
2017-2021	43,360	27,123	75,045	35,862	1,590	202	119,995	63,187
2022-2026	44,230	15,797	52,980	18,675			97,210	34,472
2027-2031	10,185	9,716	26,820	9,320			37,005	19,036
2032-2036	11,385	7,101	10,695	4,093			22,080	11,194
2037-2041	14,620	3,867	9,595	1,608			24,215	5,475
2042-2046	7,865	466					7,865	466
Total	\$207,545	\$143,126	\$309,935	\$194,398	\$5,340	\$2,450	\$522,820	\$339,974
Interest Rate	2.00% to 5.98%		2.00% to 6.50%		5.46% to 6.28%			

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Fiscal Year Ending June 30	Discretely Presented Component Units							
	Idaho Housing and Finance Association		College and University Foundation		Bond Bank Authority		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$114,240	\$62,136	\$1,635	\$1,006	\$960	\$1,089	\$116,835	\$64,231
2008	37,960	73,064	1,640	946	1,285	1,171	40,885	75,181
2009	60,170	70,871	1,650	875	1,360	1,126	63,180	72,872
2010	30,190	68,794	1,660	808	1,410	1,071	33,260	70,673
2011	32,550	67,361	1,680	740	1,475	1,005	35,705	69,106
2012-2016	198,715	307,797	8,635	2,777	7,650	3,925	215,000	314,499
2017-2021	235,090	243,457	7,750	871	5,255	2,448	248,095	246,776
2022-2026	258,185	166,386			4,895	1,346	263,080	167,732
2027-2031	192,210	93,300			1,910	518	194,120	93,818
2032-2036	151,455	26,860			1,575	184	153,030	27,044
2037-2041	18,565	888					18,565	888
2042-2046	310	10					310	10
Total	\$1,329,640	\$1,180,924	\$24,650	\$8,023	\$27,775	\$13,883	\$1,382,065	\$1,202,830
Interest Rate	4.03%		3.75% to 5.35%		2.50% to 5.00%			

C. Advance Refundings

In fiscal year 2006 the Department of Water Resources, through the Idaho Water Resource Board, issued Series 2006 refunding bonds, thereby defeasing the Series 1999 bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The proceeds of the Series 2006 bonds, along with additional funds, totaled \$5.2 million and were placed into an escrow account to pay all future debt service payments on the defeased bonds. The cash flow savings equaled \$1.0 million (\$1.7 million undiscounted), and the economic gain equaled \$0.5 million. The outstanding debt payable by the escrow as of June 30, 2006, for the defeased bond issue is \$4.7 million.

In prior years the Idaho State Building Authority defeased several bonds by placing governmental securities into irrevocable trusts sufficient to provide for all future debt service payments on those bonds. Consequently, the related liability was appropriately removed from the financial statements in the year of defeasance.

In prior years Boise State University and the University of Idaho defeased several bonds by placing the proceeds of general revenue and refunding bonds into escrow accounts in amounts sufficient to pay all future debt service payments on those bonds. The related liabilities were appropriately removed from the financial statements in the year of defeasance.

The outstanding debt payable as of June 30, 2006, for each defeased debt issue follows (*dollars in thousands*):

Issuer	Debt Issue	Amount	Remaining
		Defeased	Liability
Idaho State Building Authority	1978 Series A Bonds	\$15,284	\$1,440
	1992 Series C Bonds	\$9,225	\$6,020
Water Resource Board	1999 Series Bonds	\$4,785	\$4,685
Boise State University	1996 Series Bonds	\$1,500	\$1,500
	1998 Series Bonds	\$8,130	\$8,130
	2001 Series Bonds	\$2,215	\$2,215
	2002 Series Bonds	\$105	\$105
	1996 Series Bonds	\$2,700	\$0
University of Idaho	1997 Series Bonds	\$12,965	\$12,965
	1997 Supplemental Bonds	\$4,120	\$4,120
	1999 Series C Bonds	\$4,065	\$4,065
	1999 Series D Bonds	\$6,020	\$6,020

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

D. Notes Payable

Primary Government

The Idaho Potato Commission purchased capital equipment through the issuance of a note payable in fiscal year 2005. The obligation to pay for the equipment extends through fiscal year 2008.

The Department of Administration purchased operating and capital equipment through the issuance of notes payable. The obligation to pay for the equipment extends through fiscal year 2023.

The Department of Water Resources, through the Board of Water Resources, purchased water rights in fiscal year 2005. The water rights were owned by the Bell Rapids Mutual Irrigation Company and the purchase was

authorized by the Legislature to address statewide water issues driven by drought, water supply, and basic demands of economic development. The obligation to pay for the water rights extends through fiscal year 2010.

The State's colleges and universities purchased land and financed various construction projects through the issuance of notes payable in prior fiscal years. Some of these notes are secured by student fees, the sale of goods and services, grants, contributions, and other revenue.

Component Units

The State's college and university foundations financed construction projects through the issuance of notes payable in prior fiscal years. Foundation notes are secured by pledges to the building campaign.

Note debt service requirements to maturity are as follows (*dollars in thousands*):

Fiscal Year Ending June 30	Primary Government									
	Governmental Activities				Business-Type Activities					
	Nonmajor				College and		Loan		Total	
	Special Revenue	Internal Service			University					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$9	\$1	\$89	\$198	\$1,807	\$397	\$1,675		\$3,580	\$596
2008	4		103	193	1,949	309	1,675		3,731	502
2009			119	188	1,096	241	1,675		2,890	429
2010			110	182	1,128	193	1,675		2,913	375
2011			127	176	1,139	144			1,266	320
2012 - 2016			943	749	2,198	313			3,141	1,062
2017 - 2021			1,611	418	267	6			1,878	424
2022 - 2026			653	31					653	31
Total	\$13	\$1	\$3,755	\$2,135	\$9,584	\$1,603	\$6,700	\$0	\$20,052	\$3,739
Interest Rate	4.98%		4.14% to 5.34%		3.90% to 6.16%		0.00%			

Fiscal Year Ending June 30	Discretely Presented Component Unit	
	College and University Foundation	
	Principal	Interest
2007	\$2,650	\$60
Total	\$2,650	\$60
Interest Rate	4.03%	

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

E. Claims and Judgments

Primary Government

Claims and judgments are payable on behalf of the State and its agencies for various legal proceedings and claims. In general, the State records liabilities for material claims and judgments when they are considered probable and estimable. The State recorded the following claims and judgments as of June 30, 2006:

The Idaho Transportation Department experienced contractor claims for reimbursement of additional expenses incurred for the performance of construction contract requirements. The State recorded a liability of \$2.5 million.

The Department of Environmental Quality entered into a contract with the Environmental Protection Agency (EPA) in April 1995 for the purpose of environmental remediation within the Bunker Hill Superfund Site. Federal Superfund law requires the State to match 10 percent of federal funds spent on actual remediation work and the State to meet all costs of future site operational and maintenance costs. The April 2006 amended remediation cost estimate was \$150.0 million; the State's share was \$15.0 million. The State has expended \$13.3 million toward the required match, leaving a liability of \$1.7 million. The work is estimated to be completed in calendar year 2007. The State anticipates 1,000 acres of unremediated land will be transferred to the State. The land's value has not been established but is

estimated to be insignificant due to the poor access, topography, and unremediated condition of the land.

In August 2002 the federal government, Idaho, Washington, and tribal officials signed a memorandum of agreement to create the Coeur d'Alene Basin Commission that will direct clean up of the Coeur d'Alene Basin in Idaho. The EPA issued a record of decision in September 2002. The State and federal government signed the Coeur d'Alene Basin Superfund contract on October 2, 2003. The current estimate of the remediation cost is \$355.0 million; Idaho's share is \$32.4 million. The State has expended \$2.2 million toward the required match, leaving a liability of \$30.2 million. Washington State will match the remainder of the liability. The present value of operational and maintenance cost is estimated at \$41.0 million. Work began in 2003 and will take 30 years to complete. Environmental liability estimates are subject to amendment. The State does not anticipate any recovery from other parties for the Coeur d'Alene Basin project.

Discretely Presented Component Units

The Petroleum Clean Water Trust Fund had policy claim liabilities of \$7.2 million for unpaid losses and loss adjustments.

The Idaho Individual High-Risk Reinsurance Pool and the Idaho Small Employer Reinsurance Program had policy claim liabilities of \$2.2 million for unpaid claims.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

F. Changes in Long-Term Liabilities

The changes in long-term liabilities for the fiscal year ended June 30, 2006, are summarized as follows (*dollars in thousands*):

Long-Term Liabilities	Balances at July 1, 2005 As Restated	Increases	Reductions	Balances at June 30, 2006	Amounts Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds	\$205,510	\$10,790	(\$8,755)	\$207,545	\$9,015
Premiums/Discounts/Other	(2,443)	(23)	124	(2,342)	
Total Bonds Payable	203,067	10,767	(8,631)	205,203	9,015
Capital Leases	9,428	5,782	(1,281)	13,929	1,079
Compensated Absences	112,155	59,605	(51,921)	119,839	47,397
Policy Claim Liabilities	37,263	2,738	(6,127)	33,874	6,542
Claims and Judgments	36,990	770	(3,274)	34,486	2,762
Notes Payable	22	3,859	(113)	3,768	98
Due to Component Unit	1,167		(1,167)	0	
Net Pension Obligation	621	450		1,071	
Total Governmental Activity	\$400,713	\$83,971	(\$72,514)	\$412,170	\$66,893
Business-Type Activities:					
Revenue Bonds	\$325,388	\$5,340	(\$15,453)	\$315,275	\$12,180
Premiums/Discounts	4,447		(414)	4,033	(59)
Total Bonds Payable	329,835	5,340	(15,867)	319,308	12,121
Capital Leases	1,450	639	(380)	1,709	422
Capital Leases to Component Unit	3,657		(235)	3,422	250
Compensated Absences	16,814	16,908	(16,736)	16,986	16,986
Notes Payable	17,104	1,995	(2,815)	16,284	3,482
Total Business-Type Activity	\$368,860	\$24,882	(\$36,033)	\$357,709	\$33,261
Discretely Presented					
Component Units:					
Revenue Bonds	\$1,270,315	\$391,755	(\$280,005)	\$1,382,065	\$116,835
Premiums/Discounts	645	81	(4)	722	
Total Bonds Payable	1,270,960	391,836	(280,009)	1,382,787	116,835
Policy Claim Liabilities	9,607	7,458	(7,667)	9,398	4,350
Notes Payable	10,472		(7,822)	2,650	2,650
Total Component Unit Activity	\$1,291,039	\$399,294	(\$295,498)	\$1,394,835	\$123,835

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end \$0.7 million of compensated absences, \$33.9 million of policy claim liabilities, and \$0.3 million of capital leases were included in the above amounts for internal service fund liabilities.

The compensated absences liability attributable to governmental activities will be liquidated by the General

Fund, special revenue, and internal service funds. In the past approximately 38.8 percent has been paid by the General Fund, 59.8 percent by special revenue funds, and the remainder by internal service funds. Primarily the same funds that have been used in prior years will be used to liquidate the following other governmental activity long-term liabilities: policy claim liabilities will be liquidated through the State's Group Insurance and Risk Management funds; claims and judgments will be liquidated by the Transportation special revenue fund and nonmajor special revenue funds.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

G. Conduit Debt

Primary Government

The Idaho Water Resource Board, a separate entity established by *Idaho Code* within the Department of Water Resources, has outstanding Water Resource Development Revenue Bonds for the promotion, construction, rehabilitation, and repair of water projects. The bonds are secured by the property financed and are payable solely from revenue of the projects. Upon payment of the bonds, ownership of the acquired facilities transfers to the entity served by the bond issuance. Such bonds do not constitute a debt or obligation of the State or any political subdivision, agency thereof, or of the Board except to the extent of the revenues pledged under the indenture. Accordingly, these bonds are not reported in the accompanying financial statements. As of June 30, 2006, seven series of Water Resource Bonds that qualified as conduit debt

are outstanding with an aggregate principal amount payable of \$85.5 million.

Discretely Presented Component Unit

The Idaho Housing and Finance Association has outstanding bonds to provide financial assistance to entities for the construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying investments. Upon repayment of the bonds, ownership of the constructed facilities transfers to the individuals served by the bond issuance. The Association is not obligated in any manner for repayment of these bonds. Accordingly, the bonds are not reported as Association liabilities. As of June 30, 2006, seventeen series of bonds that meet the description of conduit debt obligations are outstanding with an aggregate principal amount payable of \$47.4 million.

NOTE 13. FUND EQUITY

A. Restatement of Beginning Fund Balances and Net Assets

During fiscal year 2006 additional information became available that required the restatement of the beginning fund balances or net assets for the following funds:

The General Fund beginning fund balance decreased by \$35.5 million due to the recording of additional sales tax distributions payable to cities and counties.

The General Services internal service fund beginning net assets increased by \$9.8 million as a result of capitalizing a building acquired in prior years.

The government-wide Statement of Activities beginning net asset balance includes the above adjustments in the Governmental Activities column. In addition the beginning net asset balance decreased by \$69.1 million due to a change in accounting for sick leave balances reserved for retiree health insurance.

The College and University beginning net assets decreased by \$4.9 million due to an adjustment to student fees receivable.

The Idaho Individual High Risk Reinsurance Pool and the Idaho Small Employer Health Reinsurance Program were included as a discretely presented

component unit, the Health Reinsurance fund. Although the Health Reinsurance fund does not report net assets, component unit assets and liabilities were increased.

The Idaho Bond Bank Authority was included as a discretely presented component unit, which increased component unit beginning net assets by \$49,000.

B. Net Assets Restricted by Enabling Legislation

Net assets are reported as restricted when constraints are placed on net asset use by external parties such as creditors, grantors, contributors, or other governments; or by state law through constitutional provisions or enabling legislation. Enabling legislation authorizes the state to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the State to honor.

At June 30, 2006, the government-wide Statement of Net Assets reported \$1.4 billion of restricted net assets for governmental activities and \$720.7 million of restricted net assets for business-type activities. These amounts include \$232.5 million of net assets restricted

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

by enabling legislation for governmental activities and \$167.2 million of net assets restricted by enabling legislation for business-type activities.

C. Designated Governmental Fund Balances

Designated fund balances are included in the Unreserved Fund Balances reported on the governmental fund balance sheet. Designations represent management's tentative self-imposed decisions about the future use of

unreserved fund balances. Designated fund balances for the year ended June 30, 2006, include the following:

General Fund: \$74,700 for parks and recreation capital projects.

Nonmajor Special Revenue Funds: \$118,924 for training programs, \$5.8 million for air quality and environmental remediation projects, \$420,400 for computer hardware and support, and \$5.8 million for parks and recreation capital projects.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation and Contingencies

At June 30, 2006, litigation and contingencies consist of the following:

Primary Government

In *ISEEO, et al. v. Evans, et al.*, the plaintiffs allege that the current public school system does not provide a thorough education as required by the *Idaho Constitution*. Plaintiffs allege that approximately \$700.0 million to \$1.0 billion in construction expenditures will be needed to bring public schools up to standards. The case has been dismissed three times by the district court and appealed three times to the Idaho Supreme Court. The Supreme Court has remanded the case back to the district court, each time providing additional directions. Following the third remand the district court determined that the funding system did not provide constitutionally adequate facilities in some circumstances and indicated the court would take remedial action if the Legislature did not address the court's concerns. The district court certified that decision for appeal to the Idaho Supreme Court. The Idaho State Supreme Court determined that the system as it existed in 2000 was unconstitutional and that it was up to the Legislature to determine an appropriate remedy. The parties currently disagree as to whether the case is over or whether the district court may evaluate the adequacy of legislative actions taken since 2000 and consider additional remedies. If the plaintiffs were ultimately successful in requiring additional legislative action, the Legislature would be required to address the judgment by raising additional state revenue, reallocating state revenue, or providing the districts the means to obtain additional revenue at the local level.

Idaho Code, Section 33-5303, requires the State to guarantee the bonds of any school district qualified by

the State Treasurer. *Idaho Code*, Section 67-8716, requires the State to guarantee the bonds of any municipality qualified by the State Treasurer. If the State is required to make the bond payment of any school district or municipality, the State will redirect distributions normally made to the school district or municipality to reimburse the State. As of June 30, 2006, the principal amount of qualified bonds outstanding to school districts is \$635.7 million and the interest amount outstanding is \$210.5 million; the principal amount of qualified bonds outstanding to municipalities is \$28.5 million and the interest amount outstanding is \$14.3 million.

In November 1998 a Master Settlement Agreement was reached between the five largest tobacco manufacturers and 46 states. Under the terms of the Agreement, the State of Idaho anticipates receiving annual payments in perpetuity, subject to numerous adjustments. The State received cash payments of \$21.3 million during fiscal year 2006. A number of tobacco manufacturers commenced litigation against Idaho and other states alleging that the states have not diligently enforced the Master Settlement Agreement. While Idaho believes the allegations regarding Idaho enforcement are without merit, the litigation threatens this income stream with respect to such payments.

The Idaho Transportation Department faces a potential liability of \$7.2 million for unpaid contractual claims. A probable cost of \$2.5 million has been recognized as a liability with a remaining contingent liability of \$4.7 million.

Shoshone-Bannock Tribes v. Idaho State Tax Commission is a tribal claim for a refund of motor fuels taxes in excess of \$6.0 million. The tribe claims it is entitled to refunds of motor fuels tax collected on fuel

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

sold to tribal retailers during years prior to the Idaho Supreme Court decision in *Goodman Oil Co. of Lewiston v. Idaho State Tax Com'n*, 136 Idaho 53 (2001).

The State Tax Commission is currently considering an administrative refund claim by a financial institution for \$2.7 million involving the proper sourcing of intangibles for the sales factor and the property factor used to allocate income to Idaho. The identity of the taxpayer is confidential pursuant to state law.

Abbott, et al v. Sombke is a federal action filed by Idaho Department of Correction inmates, which seeks class action monetary and injunctive relief. Plaintiffs claim they received constitutionally inadequate mental health treatment. Plaintiffs allege violations of the Eighth Amendment of the *U.S. Constitution* and violations of the Americans with Disabilities Act. The State will vigorously defend against the allegations. However, if unsuccessful, the State could be exposed to monetary damages and the costs of any programmatic changes that might be ordered.

The State is also a defendant in numerous legal proceedings pertaining to matters incidental to the performance of governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings, and other alleged violations of state and federal laws. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the State in respect to the various proceedings. However, it is believed that any ultimate liability resulting from these suits will not have a material effect on the financial condition of the State.

Revenue from federal grants includes amounts for the recovery of overhead and other costs. The State may be required to make refunds of federal reimbursements as a result of audits. The opinion of the State is that these refunds, if any, will not have a significant effect on the financial position of the State.

Discretely Presented Component Unit

The Idaho Life and Health Insurance Guaranty Association has not assessed or accrued for all potential reinsurance or claim liabilities for certain insolvent insurers. The total liability relating to these insolvencies is not yet determined. However, management's best estimate of future unrecorded reinsurance liability at this time is \$3.4 million for Executive Life. Assessments for the liabilities will be made in future periods as amounts become due, if necessary.

B. Commitments

At June 30, 2006, commitments consist of the following:

Primary Government

The Public Employee Retirement System has a total of \$480.3 million in outstanding commitments for investments to private equity partnerships and a private real estate joint venture.

The Department of Administration has a total of \$304.1 million in outstanding commitments for capital asset related construction projects underway at year-end.

The Idaho Transportation Department (ITD) has a total of \$183.8 million in outstanding commitments for infrastructure and \$0.8 million for other capital asset related construction projects underway at year-end. In addition, the ITD has a commitment to repay Idaho Housing and Finance Association \$194.3 million in principal and \$91.9 million in interest related to Grant Anticipation Revenue Vehicles or GARVEE Bonds for construction costs to improve and enhance the State's highway infrastructure.

The colleges and universities estimate costs of \$63.2 million to complete a variety of capital asset related construction projects underway at year-end.

The Department of Environmental Quality (DEQ) administers two revolving loan funds. The funds provide a financing source for the construction of publicly owned wastewater and drinking water treatment facilities. As of June 30, 2006, the Clean Water Loan fund had loan commitments of \$45.3 million that are funded with approximately 80 percent federal funds and 20 percent state matching dollars. The Drinking Water Loan fund had \$25.6 million of loan commitments that are funded with approximately 80 percent federal funds and 20 percent state matching dollars. DEQ also has committed to various contracts addressing pollution remediation, best management practice implementation, and other environmental projects totaling \$4.7 million.

The Department of Correction has a contract with Correctional Corporation of America to operate a 1,250 plus bed prison. The contract expires June 30, 2009. The estimated cost for fiscal year 2007 is \$19.6 million. The Department has a contract until July 12, 2008, with Correctional Medical Services, Inc., to provide medical services for inmates. The estimated cost for fiscal year 2007 is approximately \$17.9 million.

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

The Department of Juvenile Corrections contracts with various private juvenile placement providers for care and rehabilitation services. Contract daily rates range from \$90 to \$360 per day. The estimated cost for fiscal year 2007 is \$11.9 million.

The Department of Parks and Recreation (IDPR) is a party in a land sale contract with a promise to pay \$3.6 million to the Nature Conservancy. Currently the IDPR has approximately \$1.3 million in equity. In the event payment is not made, IDPR and the Nature Conservancy will hold undivided ownership interest in the real property. IDPR has a total of \$8.0 million in outstanding commitments for capital asset related construction projects underway at year-end.

The Dairy Products Commission annually commits to participate in a national advertising pool administered by Dairy Management, Inc. By contractual agreement, the Commission's 2006 advertising pool commitment will not exceed \$7.1 million.

The State Board of Education has contracts for a total of \$4.8 million with vendors that will provide test and assessment services and computerized instruction to K-12 students.

The State Lottery contracted with GTECH, Inc., through February 18, 2007, to pay 2.99 percent of gross, weekly on-line ticket sales; \$16,000 per week; \$75 per instant ticket vending machine placed in service per month for ongoing facilities management services; \$10,000 per week for license fees; \$96 per wireless system per month; and a \$250 installation fee per system.

Discretely Presented Component Unit

Idaho Housing and Finance Association has commitments to purchase \$3.4 million of single-family mortgages.

NOTE 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the following events occurred:

Primary Government

On June 21, 2006, the Idaho State Building Authority received \$5.2 million from the U.S. Forest Service for the purchase of condominium units at the Idaho Water Center in Boise. The sale was reported in the fiscal year ended June 30, 2006. In August 2006 the proceeds were applied to defease a portion of the Authority's Series 2003B bonds.

On July 5, 2006, the Office of the State Treasurer issued Tax Anticipation Notes in the amount of \$100.0 million. The Notes were issued to cover temporary cash flow shortfalls and to finance the State's daily operations in anticipation of certain tax revenues of the State to be collected during the fourth quarter of the 2007 fiscal year. The Notes mature on June 29, 2007.

On August 14, 2006, the Idaho State Lottery signed a contract with INTRALOT, Inc., to provide on-line gaming services, communications, and administrative support. INTRALOT will begin providing services when the current on-line service contract with GTECH, Inc., expires on February 18, 2007. The contract will run through February 28, 2014, with an option for the Lottery to extend the contract for up to three more years.

The new contract will provide two distinct financial benefits to the Lottery. First, the effective percentage-of-sale compensation rate is lower than the current contract with GTECH. Secondly, INTRALOT will provide and maintain an administrative computer system, which will eliminate the need for the Lottery to replace and maintain much of its existing computer hardware and software, as well as allow for the elimination of three Lottery positions.

On August 25, 2006, the Legislature met for an extraordinary legislative session and passed the Governor's Property Tax Relief Act of 2006. This Act raised sales tax 1 percent from 5 percent to 6 percent, effective October 1, 2006. The increase in sales tax is intended to replace the loss of revenue to public education due to the Act's simultaneous elimination of the education maintenance and operation tax levy on Idaho real property. An advisory vote was placed on the November 7, 2006, ballot asking voters if the State of Idaho should keep the property tax relief adopted by the session. Voters supported the Act.

On September 27, 2006, the Idaho State Building Authority issued revenue bonds in the amount of \$127.8 million for the Idaho State Capitol Building Project. House Concurrent Resolution No. 47, approved by the 2006 Legislature, authorized the Department of Administration to enter into agreements with the Idaho

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

State Building Authority to finance renovation of the Capitol Building and the addition of two underground wings to the east and west ends of the building.

Discretely Presented Component Unit

On July 27, 2006, the Idaho Housing and Finance Association issued Single-Family Mortgage Bonds 2006 Series D in the amount of \$35.0 million. On September 14, 2006, the Association issued Single-Family Mortgage Bonds 2006 Series E in the amount of \$35.0 million. On November 9, 2006, the Association issued

Single-Family Mortgage Bonds 2006 Series F in the amount of \$35.0 million. Write-offs related to the Association's July 1, 2006, bond redemptions were \$1.0 million.

On September 15, 2006, Thelma E. Stephens, a major contributor to the Idaho State University Foundation for the construction of the L.E. and Thelma E. Stephens Performing Arts Center, passed away. Her death results in the maturing of a pledge of nearly \$10.0 million that will be used to redeem a portion of the Foundation's multi-mode, variable rate revenue bonds.

Required Supplementary Information
Budgetary Comparison Schedule
General Fund and Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2006 (dollars in thousands)

	General			
	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
REVENUES				
Sales Tax	\$1,066,453	\$1,066,453	\$1,066,453	-
Individual and Corporate Taxes	1,637,094	1,637,094	1,637,094	-
Other Taxes	62,772	62,772	62,772	-
Licenses, Permits, and Fees	16,812	16,812	16,812	-
Sale of Goods and Services	30,468	30,468	30,468	-
Grants and Contributions	2,845	2,845	2,845	-
Investment Income	36,861	36,861	36,861	-
Tobacco Settlement	21,253	21,253	21,253	-
Other Income	9,238	9,238	9,238	-
Total Revenues	2,883,796	2,883,796	2,883,796	
EXPENDITURES				
General Government	632,078	637,149	598,529	\$38,620
Public Safety and Correction	204,506	214,780	210,760	4,020
Health and Human Services	28,802	28,802	28,802	-
Education	1,466,125	1,470,185	1,444,449	25,736
Economic Development	26,635	26,205	21,937	4,268
Natural Resources	35,713	47,401	34,475	12,926
Total Expenditures	\$2,393,859	\$2,424,522	2,338,952	\$85,570
Revenues Over (Under) Expenditures			544,844	
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets			104	
Transfers In			130,406	
Transfers Out			(759,776)	
Total Other Financing Sources (Uses)			(629,266)	
Revenues and Other Financing Sources Over (Under)			(84,422)	
Expenditures and Other Financing Uses				
Reconciling Items				
Changes Affected by Accrued Revenues			(164,094)	
Changes Affected by Accrued Expenditures			497,025	
Fund Balances - Beginning of Year			537,540	
Fund Balances - End of Year			\$786,049	

Health and Welfare				Transportation			
Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
\$1,722	\$1,722	\$1,722	-	\$214,666	\$214,666	\$214,666	-
3,853	3,853	3,853	-	113,518	113,518	113,518	-
75,931	75,931	75,931	-	3,645	3,645	3,645	-
1,024,034	1,024,034	1,024,034	-	264,796	264,796	264,796	-
408	408	408	-	3,981	3,981	3,981	-
3,324	3,324	3,324	-	270	270	270	-
1,109,272	1,109,272	1,109,272		600,876	600,876	600,876	
1,615,865				1,606,182			
				1,564,832			
				\$41,350			
				725,102			
				732,422			
				612,035			
				\$120,387			
\$1,615,865	\$1,606,182	1,564,832	\$41,350	\$725,102	\$732,422	612,035	\$120,387
		(455,560)				(11,159)	
		260				6,930	
		467,678				(15,796)	
		(198)				(8,866)	
		467,740				(20,025)	
		12,180					
		74,729				10,159	
		(87,148)				(5,833)	
		2,547				120,927	
		\$2,308				\$105,228	

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2006**

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Budgetary Process and Control

Budgets are adopted in accordance with *Idaho Code*, Title 67, Chapter 35. In September of each year, state agencies submit requests for appropriations to the Governor's Office, Division of Financial Management (DFM), so an executive budget may be prepared. The budget is generally prepared by agency, fund, program, and object and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. Legal level of budgetary control is maintained at the same level of detail as appropriated. Appropriated funds include the General Fund, special revenue funds, enterprise funds, internal service funds, earnings of the permanent funds, and pension trust funds. The appropriated funds are either appropriated annually or on a continuous basis. For those funds appropriated on a continuous basis appropriation equals expenditures, which can be made to the extent of available cash. Unexpended appropriation balances generally lapse at fiscal year-end unless reappropriated by the Legislature.

The Governor's budget recommendations are presented to the Legislature within the first five days of each regular legislative session, which begins in January. The Joint Finance and Appropriations Committee reviews the Governor's recommended budget, makes amendments, and prepares the annual appropriation bills for submission to both houses of the Legislature. A simple majority vote by both houses of the Legislature is required to pass the appropriation bills. The appropriation bills become the State's authorized operating budget upon the Governor's signature, or if allowed, become law without the Governor's signature.

Agencies may request additional appropriations for the current year, which may be granted under authority of the Legislature. If expenditures are expected to exceed available cash, the State Board of Examiners (SBE) may authorize reduction of a portion of the General Fund appropriation. The Governor may issue an executive order for temporary reduction of spending authority, which is recorded in the accounting system as a negative supplemental appropriation.

Limitations exist regarding the extent to which management may modify an appropriation. At no time, without legislative authority, may an appropriation be transferred from one fund to another. The following adjustments may be made, with the appropriate approval:

Idaho Code, Section 67-3511(1), allows agencies to transfer spending authority between objects within a fund and program, with the exception of personnel

costs. Appropriations for personnel costs may be transferred to other objects, but appropriations for other costs may not be transferred to personnel. Per *Idaho Code*, Section 67-3511(3), appropriations for capital outlay may not be used for any other purpose, but appropriations for other objects may be transferred to capital outlay. The SBE must approve object transfers.

Idaho Code, Section 67-3511(2), allows agencies to transfer spending authority from one program to another within an agency, provided the transfer is not more than 10 percent cumulative change from the appropriated amount for any program affected by the transfer. DFM and the SBE must approve these transfers. The Legislature must approve transfers above 10 percent cumulative change.

Should any change occur that is not within the described limitations, legal compliance is not achieved.

Budgetary Basis of Accounting

The State's legal budget is prepared using cash basis records. Revenues are generally recognized when cash is received. Expenditures are recorded when the related cash disbursement occurs. Encumbrances are allowed for budgetary control purposes. Fund balances are reserved for obligations incurred for goods or services that have not been received. Encumbrances may be carried over to the next fiscal year with the approval of the DFM. The Budgetary Comparison Schedule is prepared on the budgetary basis and includes this variation from generally accepted accounting principles. The reconciliation at the bottom of the budget and actual schedule shows the difference between the budgetary basis and GAAP.

The State does not adopt a revenue budget. For financial reporting purposes, the budget and actual schedule reflects budgeted revenues as being equal to actual revenues.

The State issues a separate Legal Basis Financial Report, which demonstrates legal compliance with the budget. A copy of this report may be obtained by contacting the Office of the State Controller, P.O. Box 83720, Boise, Idaho, 83720, or may be viewed online at www.sco.idaho.gov. Look under "Accounting," and then "Financial Reports and Public Information."

Required Supplementary Information For the Fiscal Year Ended June 30, 2006

INFRASTRUCTURE – MODIFIED APPROACH REPORTING

Under GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, governments are allowed an alternative to depreciation for their infrastructure assets, referred to as the modified approach. Using the modified approach, governments report maintenance and preservation expenses and do not report depreciation expense on qualifying assets. In order to use the modified approach, the government must manage the infrastructure assets using an asset management system and maintain those assets at established condition levels. The asset management system must meet the following requirements:

- Maintain an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of eligible assets and summarize the results using a measurement scale,
- Annually estimate the cost to maintain and preserve the assets at the condition level established, and
- Document the condition level at which the assets are being actually preserved and maintained.

The State of Idaho has chosen to use the modified approach in reporting the roadway network, which consists of approximately 11,874 lane miles.

Measurement Scale

The Idaho Transportation Department (ITD) determines the condition of the State's roadway surfaces by use of the Pavement Management System. The roadway surface condition is determined using two pavement-condition data elements, road roughness and pavement distress, collected as follows:

Road Roughness is a primary indicator of pavement serviceability or the ability of a pavement to meet the demands and expectations of motorists. In Idaho, the public's perception of the state highway system is very important. For that reason, a roughness index (RI) was adopted that correlates the longitudinal profile of the road surface to an index based upon the public's perception of road roughness. The RI ranges from 0.0 (extremely rough) to 5.0 (smooth).

A South Dakota-type profilometer is currently used by ITD to measure pavement roughness. This instrument uses laser sensors and personal computers and is mounted in a vehicle that travels at normal speeds and collects and stores road-profile information at one-foot intervals. Longitudinal profiles of all pavement management sections (PMS) statewide are obtained annually.

Pavement Distress (Cracking) is another important indicator of pavement condition. The video-inspection vehicle used to collect profile information also collects pavement video of the entire state highway system each year. The pavement management engineer then uses this video or actual field observations to determine the type, extent, and severity of cracking within each PMS. Based upon this input, a cracking index (CI) is calculated for each section. The CI is a rating very similar to the RI with 5.0 corresponding to a section with little or no cracking and 0.0 representing a section with severe cracking.

Pavement surface condition assessment is dependent upon functional classification and is divided into two categories: interstates and arterials, and collectors. Pavement surface condition is determined by applying the lower of the CI or RI to the measurement ranges shown in the following table:

Pavement Condition	Interstates and Arterials	Collectors
	Lower Index of Cracking (CI) or Roughness (RI)	
Good	(CI or RI) > 3.0	(CI or RI) > 3.0
Fair	≥ 2.5 (CI or RI) ≤ 3.0	≥ 2.0 (CI or RI) ≤ 3.0
Poor	≥ 2.0 (CI or RI) < 2.5	≥ 1.5 (CI or RI) < 2.0
Very Poor	(CI or RI) < 2.0	(CI or RI) < 1.5

Established Condition Level

The ITD has established the condition level that no more than 18 percent of pavement shall be in poor or very poor condition. In fiscal year 2005 the assessed level was maintained at 19 percent. Idaho has seen a dramatic increase in the cost of construction materials, which limits the amount of pavement restoration that can be accomplished with the same funding.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2006

Assessed Condition Ratings of State Roadways

Most Recent Five Complete Condition Assessments Percent of Total Lane Miles per Pavement Condition

	2005		2004		2003		2002		2001	
Good	7,364	62%	7,154	60%	7,196	61%	7,267	61%	7,094	60%
Fair	2,244	19%	2,453	21%	2,691	23%	2,801	24%	2,610	22%
Poor	1,772	15%	1,735	15%	1,435	12%	1,170	10%	1,255	11%
Very Poor	494	4%	510	4%	497	4%	593	5%	820	7%
Total Lane Miles	<u>11,874</u>	<u>100%</u>	<u>11,852</u>	<u>100%</u>	<u>11,819</u>	<u>100%</u>	<u>11,831</u>	<u>100%</u>	<u>11,779</u>	<u>100%</u>

Estimated and Actual Costs to Maintain

The information below reflects the State's estimate of spending necessary to reserve and maintain the roads at, or above, the established condition level, and the actual amount spent during the past six fiscal years (*dollars in thousands*):

	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Estimated	\$88,200	\$69,200	\$67,156	\$65,200	\$63,922	\$62,000	\$61,544
Actual		69,502	79,310	81,058	78,133	57,260	68,278

Actual costs exceeded estimated costs in fiscal year 2006 by 0.4 percent.



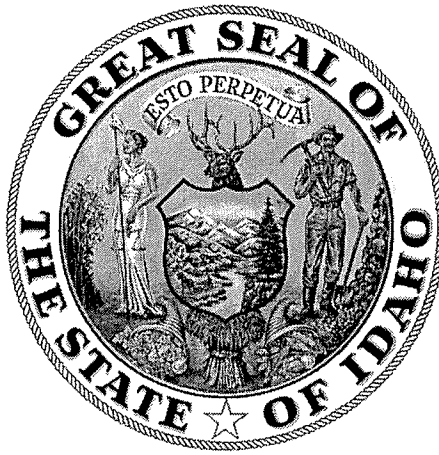
PENSION

Schedule of Funding Progress – Judges' Retirement Fund (*dollars in thousands*):

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1) : (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) : (5)
6/30/04	\$51,006	\$59,453	\$8,447	85.8%	\$4,799	176
6/30/05	54,036	61,548	7,512	87.8%	4,799	157
6/30/06	57,836	64,529	6,693	89.6%	5,297	126

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

AUDITOR'S REPORTS

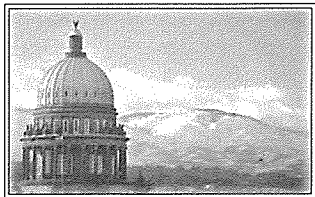


**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

AUDITOR'S REPORTS

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Legislative Services Office

Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

December 8, 2006

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards

Honorable James Risch, Governor
Honorable Members of the Legislature
Honorable Keith Johnson, State Controller

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho, as of and for the fiscal year ended June 30, 2006, that collectively comprise the State's basic financial statements, and have issued our report thereon dated December 8, 2006. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of Idaho, Idaho State University, Boise State University, Lewis and Clark State College, Eastern Idaho Technical College and their respective component units, the Endowment Fund Investment Board, State Lottery Commission, Public Employees Retirement System of Idaho, IDEal Idaho College Savings Program, the Idaho Life and Health Guaranty Association, Idaho Individual Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Petroleum Clean Water Trust Fund, Idaho Building Authority, and the Idaho Housing and Finance Association as described in our report on the State of Idaho's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Idaho Life and Health Insurance Guaranty Association, Idaho Housing and Finance Association, and IDEal College Savings Program were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Idaho's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Idaho's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as findings 06S-5, 06S-7, and 06S-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

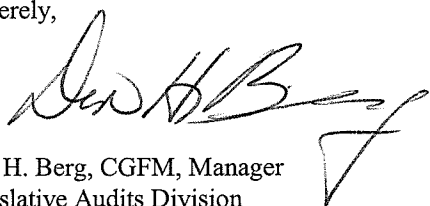
Compliance and Other Matters

As part of obtaining reasonable assurance as to whether the State of Idaho's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings and Recommendations as findings 06S-2, 06S-3, 06S-4, and 06S-6.

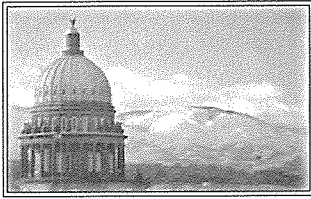
We also noted certain additional matters that we reported to the management of the State of Idaho in separate correspondence issued at the State agency level.

This report is intended solely for the information and use of the management of the State of Idaho, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don H. Berg", with a stylized flourish extending from the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division



Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

Independent Auditor's Report on
Compliance With Requirements Applicable
to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133

December 8, 2006

April 30, 2007

Honorable James Risch, Governor
Honorable Members of the Legislature
Honorable Keith Johnson, State Controller

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Idaho State Legislature
Honorable Donna Jones, Controller

Compliance

We have audited the compliance of the State of Idaho with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006, except for the following programs. We did not audit the colleges and universities, with more than \$313 million in federal awards. These awards are not included in the Supplementary Schedules of Federal Awards contained in this report. These entities were audited by other auditors who have furnished these reports to the proper entities. The State of Idaho's major federal programs, except as described above, are identified in the Summary of the Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Idaho's management. Our responsibility is to express an opinion on the State of Idaho's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance as to whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Idaho's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Idaho's compliance with those requirements.

In our opinion, the State of Idaho complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, that are required to be reported in accordance with *OMB Circular A-133*, and that are described in the accompanying schedule of findings and questioned costs as findings 06F-1, 06F-2, 06F-4, 06F-6, and 06F-8.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

Internal Control Over Compliance

The management of the State of Idaho is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Idaho's internal control over compliance with requirements that could have a direct and material effect on a major federal program, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Idaho's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 06F-3, 06F-5, and 06F-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected, within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

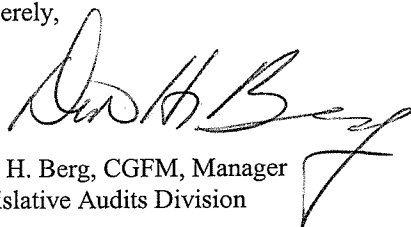
Schedules of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Idaho as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho's basic financial statements. The accompanying Schedules of Expenditures of Federal Awards is presented for purpose of additional analysis as required by *OMB Circular A-133*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our report contained an unqualified opinion on the basic financial statements. Our opinion expressed therein, insofar as it relates to entities financial statements were audited by other auditors, was based solely on the reports of the other auditors.

This report is intended solely for the information and use of the management of the State of Idaho, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



Don H. Berg, CGFM, Manager
Legislative Audits Division

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**SUPPLEMENTARY SCHEDULES OF
EXPENDITURES OF FEDERAL AWARDS**



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**SUPPLEMENTARY SCHEDULES OF EXPENDITURES
OF FEDERAL AWARDS**

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**SUPPLEMENTARY SCHEDULE
OF
EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT**

**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
DEPARTMENT OF AGRICULTURE				
FOOD STAMP CLUSTER:				
Food Stamps	Health and Welfare, Department of	10.551	\$101,184,389	NC
State Administrative Matching Grants for Food Stamp Program	Health and Welfare, Department of	10.561	7,996,779	
TOTAL FOOD STAMP CLUSTER			\$109,181,168	
CHILD NUTRITION CLUSTER:				
School Breakfast Program	Superintendent of Public Instruction	10.553	\$10,129,776	
National School Lunch Program	Superintendent of Public Instruction	10.555	34,097,261	
Special Milk Program for Children	Superintendent of Public Instruction	10.556	246,905	
Summer Food Service Program for Children	Superintendent of Public Instruction	10.559	2,534,312	
TOTAL CHILD NUTRITION CLUSTER			\$47,008,254	
EMERGENCY FOOD ASSISTANCE CLUSTER:				
Emergency Food Assistance Program (Administrative Costs)	Health and Welfare, Department of	10.568	\$177,711	NC
Emergency Food Assistance Program (Food Commodities)	Health and Welfare, Department of	10.569	961,756	
TOTAL EMERGENCY FOOD ASSISTANCE CLUSTER			\$1,139,467	
NON-CLUSTERED PROGRAMS:				
Plant and Animal Disease, Pest Control, and Animal Care	Agriculture, Department of	10.025	\$1,728,594	
Plant and Animal Disease, Pest Control, and Animal Care	Lands, Department of	10.025	120,880	
Conservation Reserve Program	Lands, Department of	10.069	8,235	
Federal-State Marketing Improvement Program	Agriculture, Department of	10.156	50,000	
Inspection Grading and Standardization	Agriculture, Department of	10.162	67,457	
Market Protection and Promotion	Agriculture, Department of	10.163	61,287	
Specialty Crop Block Grant Program	Agriculture, Department of	10.169	324,995	
Homeland Security-Agricultural	Agriculture, Department of	10.304	5,368	
Food Donation	Superintendent of Public Instruction	10.550	3,640,115	NC
WIC Program	Health and Welfare, Department of	10.557	20,663,224	
Child and Adult Care Food Program	Superintendent of Public Instruction	10.558	5,218,047	
State Administrative Expenses for Child Nutrition	Superintendent of Public Instruction	10.560	851,580	
Team Nutrition Grants	Superintendent of Public Instruction	10.574	156,332	
Team Nutrition Grants	Superintendent of Public Instruction	10.574	(400)	
Child Nutrition Discretionary Grants Limited Availability	Superintendent of Public Instruction	10.579	164,963	PT
Cooperative Forestry Assistance	Agriculture, Department of	10.664	1,129,958	
Cooperative Forestry Assistance	Lands, Department of	10.664	5,412,425	
National Forest-Dependent Rural Communities	Commerce and Labor, Department of	10.670	16,000	
Rural Development, Forestry, and Communities	Commerce and Labor, Department of	10.672	93,472	
Rural Development, Forestry, and Communities	Historical Society, Idaho State	10.672	9,500	
Rural Development, Forestry, and Communities	Lands, Department of	10.672	309,784	
Forest Legacy Program	Lands, Department of	10.676	3,477,581	
Forest Land Enhancement Program	Lands, Department of	10.677	47,305	
Public Television Station Digital Transition Grant Program	Public Television, Idaho	10.861	40,893	
Watershed Surveys and Planning	Agriculture, Department of	10.906	40,025	
Environmental Quality Incentives Program	Lands, Department of	10.912	35,734	
Miscellaneous Forest Service Grants	Fish and Game, Department of	10.999	851,157	
Marijuana Eradication Forest Service Grants	Idaho State Police	10.999	17,776	
Harriman State Park Restoration	Parks and Recreation, Department of	10.999	190	
Cost Share Agreement	Species Conservation, Office of	10.999	70,056	
TOTAL NON-CLUSTERED PROGRAMS			\$44,612,533	
TOTAL DEPARTMENT OF AGRICULTURE			\$201,941,422	

*Type of assistance other than direct cash. NC = non-cash; PT = pass-through
The accompanying notes are an integral part of the financial statements.

**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
DEPARTMENT OF COMMERCE				
PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER:				
Economic Adjustment Assistance	Commerce and Labor, Department of	11.307	\$10,911	
TOTAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER			<u>\$10,911</u>	
NON-CLUSTERED PROGRAMS:				
Interjurisdictional Fisheries Act of 1986	Fish and Game, Department of	11.407	\$1	
Columbia River Fisheries Development Program	Fish and Game, Department of	11.436	1,209,122	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Fish and Game, Department of	11.438	316,033	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Species Conservation, Office of	11.438	3,512,128	
Regional Fishery Management Councils	Fish and Game, Department of	11.441	23,777	
Public Telecommunications Facilities Planning and Construction	Public Television, Idaho	11.550	341,089	
Miscellaneous NOAA Grants	Fish and Game, Department of	11.999	793,058	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$6,195,208</u>	
TOTAL DEPARTMENT OF COMMERCE			<u>\$6,206,119</u>	
DEPARTMENT OF DEFENSE				
Procurement Technical Assistance for Business Firms	Commerce and Labor, Department of	12.002	\$241,303	
Aquatic Plant Control	Agriculture, Department of	12.100	75	
Agreement Program for the Reimbursement of Technical Services	Environmental Quality, Department of	12.113	123,181	
National Guard Military Operations and Maintenance Projects	Military, Division of	12.401	21,802,449	
Miscellaneous Army Corps of Engineers Grants	Fish and Game, Department of	12.999	234,346	
DEPARTMENT OF DEFENSE			<u>\$22,401,354</u>	
DEPARTMENT OF HOUSING/URBAN DEVELOPMENT				
Manufactured Home Construction and Safety Standards	Building Safety, Division of	14.171	\$54,966	
Community Development Block Grants/State's Program	Commerce and Labor, Department of	14.228	9,216,767	
Community Development Block Grants/State's Program	Military, Division of	14.228	24,227	
CCBG/Brownfields Economic Development Initiative	Historical Society, Idaho State	14.246	60,756	PT
CCBG/Brownfields Economic Development Initiative	Library, Idaho State	14.246	13,040	PT
TOTAL DEPARTMENT OF HOUSING/URBAN DEVELOPMENT			<u>\$9,369,756</u>	
DEPARTMENT OF INTERIOR				
FISH AND WILDLIFE CLUSTER:				
Sport Fish Restoration	Fish and Game, Department of	15.605	\$5,179,709	
Wildlife Restoration	Fish and Game, Department of	15.611	4,578,517	
Wildlife Restoration	Species Conservation, Office of	15.611	422,144	
TOTAL FISH AND WILDLIFE CLUSTER			<u>\$10,180,370</u>	
NON-CLUSTERED PROGRAMS:				
Indian Education-Assistance to Schools	Superintendent of Public Instruction	15.130	\$41,067	
Cooperative Inspection Agreements with States and Tribes	Historical Society, Idaho State	15.222	15,492	
Cultural Resource Management	Historical Society, Idaho State	15.224	1,530	
National Fire Plan-Wildland Urban Interface Community Fire Assistance	Lands, Department of	15.228	38,400	
Fish and Wildlife Management Assistance	Fish and Game, Department of	15.608	72,121	
Cooperative Endangered Species Conservation Fund	Fish and Game, Department of	15.615	1,042,741	
Cooperative Endangered Species Conservation Fund	Lands, Department of	15.615	129,868	
Cooperative Endangered Species Conservation Fund	Species Conservation, Office of	15.615	967,852	
Sportfishing and Boating Safety Act	Parks and Recreation, Department of	15.622	100,000	
Wildlife Conservation and Restoration	Fish and Game, Department of	15.625	19,256	
Landowner Incentive	Agriculture, Department of	15.633	6,447	
Landowner Incentive	Fish and Game, Department of	15.633	117,767	
Statewide Wildlife Grants	Fish and Game, Department of	15.634	526,129	
U.S. Geological Survey-Research and Data Collection	Administration, Department of	15.808	2,489	
Historic Preservation Fund Grants-in-Aid	Historical Society, Idaho State	15.904	554,133	

*Type of assistance other than direct cash. NC = non-cash; PT = pass-through
The accompanying notes are an integral part of the financial statements.

STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Outdoor Recreation-Acquisition, Development and Planning	Parks and Recreation, Department of	15.916	\$1,198,985	
Noxious Weed Strategic Plan	Agriculture, Department of	15.999	471,329	
Slickspot Peppergrass Control	Agriculture, Department of	15.999	22,526	
DOI BLM Wood River	Environmental Quality, Department of	15.999	684	
Coeur d'Alene Basin Projects	Environmental Quality, Department of	15.999	88,697	
Miscellaneous Fish and Wildlife Service Grants	Fish and Game, Department of	15.999	5,014,149	
Miscellaneous Bureau of Reclamation Grants	Fish and Game, Department of	15.999	555,671	
Miscellaneous Bureau of Land Management Grants	Fish and Game, Department of	15.999	484,774	
Cost Share Lewis and Clark	Historical Society, Idaho State	15.999	83,584	
BLM Trail Dozer	Parks and Recreation, Department of	15.999	1,583	
Lake Walcott Projects	Parks and Recreation, Department of	15.999	95,702	
City of Rocks National Parks Service	Parks and Recreation, Department of	15.999	315,263	
Cascade Reservoir MOA	Parks and Recreation, Department of	15.999	197,488	
Miscellaneous Department of Interior Grants	Parks and Recreation, Department of	15.999	93,759	
Miscellaneous Bureau of Reclamation Grants	Water Resources, Department of	15.999	298,938	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$12,558,424</u>	
TOTAL DEPARTMENT OF INTERIOR			<u>\$22,738,794</u>	
DEPARTMENT OF JUSTICE				
Juvenile Accountability Incentive Block Grants	Juvenile Corrections, Department of	16.523	\$1,025,805	
Juvenile Justice and Delinquency Prevention-Allocation to States	Juvenile Corrections, Department of	16.540	444,895	
Title V Delinquency Prevention Program	Juvenile Corrections, Department of	16.548	47,092	
Part E State Challenge Activities	Juvenile Corrections, Department of	16.549	104,889	
State Justice Statistics Program for Statistical Analysis Centers	Idaho State Police	16.550	39,768	
National Criminal History Improvement Program	Idaho State Police	16.554	164,091	
Crime Lab Improvement-Offender DNA Index System Backlog Reduction	Idaho State Police	16.564	86,906	
Crime Victim Assistance	Health and Welfare, Department of	16.575	1,812,301	
Crime Victim Compensation	Industrial Commission	16.576	827,651	
Edward Byrne Memorial Formula Grant Program	Correction, Department of	16.579	381,878	
Edward Byrne Memorial Formula Grant Program	Idaho State Police	16.579	1,860,639	
Edward Byrne Memorial Law Enforcement Assistance Discretionary Grants	Judicial Department	16.580	24,118	PT
Violence Against Women Formula Grants	Idaho State Police	16.588	942,061	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Judicial Department	16.590	43,581	
Local Law Enforcement Block Grant Program	Idaho State Police	16.592	144,933	
Residential Substance Abuse Treatment for State Prisoners	Idaho State Police	16.593	154,597	
State Criminal Alien Assistance Program	Correction, Department of	16.606	270,351	
Community Prosecution and Project Safe Neighborhoods	Idaho State Police	16.609	198,778	
Public Safety Partnership and Community Policing Grants	Idaho State Police	16.710	31,553	
Enforcing Underage Drinking Laws Program	Juvenile Corrections, Department of	16.727	315,028	
Protecting Inmates and Safeguarding Communities Discretionary Grant	Correction, Department of	16.735	150,883	
Edward Byrne Memorial Justice Assistance Grant Program	Idaho State Police	16.738	502,268	
Paul Coverdell Forensic Sciences Improvement Grant Program	Idaho State Police	16.742	7,855	
Marijuana Eradication Drug Enforcement Administration	Idaho State Police	16.999	23,749	
Miscellaneous Department of Justice Grants	Idaho State Police	16.999	2,055	
Organized Crime	Idaho State Police	16.999	7,421	
Miscellaneous Department of Justice Grants	Judicial Department	16.999	119,645	
TOTAL DEPARTMENT OF JUSTICE			<u>\$9,734,791</u>	
DEPARTMENT OF LABOR				
EMPLOYMENT SERVICE CLUSTER:				
Employment Service/Wagner-Peyser Funded Activities	Commerce and Labor, Department of	17.207	\$7,136,657	
Disabled Veterans' Outreach Program	Commerce and Labor, Department of	17.801	333,601	
Local Veterans' Employment Representative Program	Commerce and Labor, Department of	17.804	728,420	
TOTAL EMPLOYMENT SERVICE CLUSTER			<u>\$8,198,678</u>	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
WORKFORCE INVESTMENT ACT CLUSTER:				
WIA Adult Program	Commerce and Labor, Department of	17.258	\$2,385,000	
WIA Youth Activities	Commerce and Labor, Department of	17.259	2,443,884	
WIA Dislocated Workers	Commerce and Labor, Department of	17.260	5,992,807	
TOTAL WORKFORCE INVESTMENT ACT CLUSTER			<u>\$10,821,691</u>	
NON-CLUSTERED PROGRAMS:				
Labor Force Statistics	Commerce and Labor, Department of	17.002	\$740,880	
Compensation and Working Conditions	Industrial Commission	17.005	2,632	
Labor Certification for Alien Workers	Commerce and Labor, Department of	17.203	207,145	
Unemployment Insurance	Commerce and Labor, Department of	17.225	128,886,390	
Senior Community Service Employment Program	Aging, Idaho Commission on	17.235	393,227	
Senior Community Service Employment Program	Commerce and Labor, Department of	17.235	261,115	
Trade Adjustment Assistance	Commerce and Labor, Department of	17.245	1,979,899	
WIA Pilots, Demonstrations, and Research Projects	Commerce and Labor, Department of	17.261	275,451	
Transition Assistance Program	Commerce and Labor, Department of	17.807	13,793	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$132,760,532</u>	
TOTAL DEPARTMENT OF LABOR			<u>\$151,780,901</u>	
DEPARTMENT OF TRANSPORTATION				
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:				
Highway Planning and Construction	Idaho Transportation Department	20.205	\$258,214,213	
TOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			<u>\$258,214,213</u>	
HIGHWAY SAFETY CLUSTER:				
State and Community Highway Safety	Idaho Transportation Department	20.600	\$1,047,677	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Idaho Transportation Department	20.601	210,873	
Occupant Protection	Idaho Transportation Department	20.602	3,293	
Federal Highway Safety Data Improvements Incentive Grants	Idaho Transportation Department	20.603	191,212	
Safety Incentive Grants for Use of Seatbelts	Idaho Transportation Department	20.604	618,677	
TOTAL HIGHWAY SAFETY CLUSTER			<u>\$2,071,732</u>	
NON-CLUSTERED PROGRAMS:				
Airport Improvement Program	Idaho Transportation Department	20.106	\$3,553	
National Motor Carrier Safety	Idaho State Police	20.218	1,922,507	
Recreation Trails Program	Parks and Recreation, Department of	20.219	747,611	
Federal Transit-Metropolitan Planning Grants	Idaho Transportation Department	20.505	279,423	
Formula Grants for Other Than Urbanized Areas	Idaho Transportation Department	20.509	2,924,917	
Capital Assistance Program for Elderly Persons/Persons with Disabilities	Idaho Transportation Department	20.513	155,620	
Public Transportation Research	Idaho Transportation Department	20.514	2,192	
State Planning and Research	Idaho Transportation Department	20.515	70,134	
Pipeline Safety	Public Utilities Commission	20.700	79,598	
Interagency Hazardous Materials Public Sector Training and Planning Grants	Military, Division of	20.703	78,830	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$6,264,385</u>	
TOTAL DEPARTMENT OF TRANSPORTATION			<u>\$266,550,330</u>	
DEPARTMENT OF THE TREASURY				
Miscellaneous Treasury Grant	Idaho State Police	21.999	\$239,053	
TOTAL DEPARTMENT OF THE TREASURY			<u>\$239,053</u>	
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
Employment Discrimination-Fair Employment Practices Contracts	Human Rights Commission	30.002	\$202,974	
TOTAL EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			<u>\$202,974</u>	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
FEDERAL COMMUNICATION COMMISSION				
Miscellaneous Federal Communications Commission Grants	Juvenile Corrections, Department of	32.999	\$33,212	
TOTAL FEDERAL COMMUNICATION COMMISSION			<u>\$33,212</u>	
GENERAL SERVICES ADMINISTRATION				
Donation of Federal Surplus Personal Property	Administration, Department of	39.003	\$1,854,816	NC
Election Reform	Secretary of State	39.999	2,976,045	
TOTAL GENERAL SERVICES ADMINISTRATION			<u>\$4,830,861</u>	
NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES				
Promotion of the Arts-Grants to Organizations and Individuals	Arts, Commission of the	45.024	\$6,267	
Promotion of the Arts-Partnership Agreements	Arts, Commission of the	45.025	635,681	
Promotion of the Arts-Leadership Initiative	Arts, Commission of the	45.026	23,720	
Grants to States	Library, Idaho State	45.310	1,018,958	
Grants to States	Library, Idaho State	45.310	2,000	PT
TOTAL NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES			<u>\$1,686,626</u>	
DEPARTMENT OF VETERANS AFFAIRS				
Veterans State Nursing Home Care	Veterans Services, Division of	64.015	\$5,518,482	
State Cemetery Grants	Veterans Services, Division of	64.203	287,879	
Miscellaneous Veteran's Affairs Grants	Superintendent of Public Instruction	64.999	157,057	
TOTAL DEPARTMENT OF VETERANS AFFAIRS			<u>\$5,963,418</u>	
ENVIRONMENTAL PROTECTION AGENCY				
Air Pollution Control Program Support	Environmental Quality, Department of	66.001	\$984,789	
Air Pollution Control Program Support	Environmental Quality, Department of	66.001	75,000	NC
State Indoor Radon Grants	Health and Welfare, Department of	66.032	89,751	
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Quality, Department of	66.034	338,679	
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Quality, Department of	66.034	116,427	NC
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Quality, Department of	66.034	42,964	PT
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Health and Welfare, Department of	66.034	36,091	
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Quality, Department of	66.419	1,184,319	
State Public Water System Supervision	Environmental Quality, Department of	66.432	1,333,364	
State Underground Water Source Protection	Water Resources, Department of	66.433	113,546	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Clean Water Act	Environmental Quality, Department of	66.436	118,043	
Construction Management Assistance	Environmental Quality, Department of	66.438	63,437	
Water Quality Management Planning	Environmental Quality, Department of	66.454	110,085	
Capitalization Grants for Clean Water State Revolving Funds	Environmental Quality, Department of	66.458	5,340,539	
Nonpoint Source Implementation Grants	Environmental Quality, Department of	66.460	2,891,099	
Regional Wetland Program Development Grants	Agriculture, Department of	66.461	22,762	
Regional Wetland Program Development Grants	Fish and Game, Department of	66.461	142,363	
Water Quality Cooperative Agreements	Environmental Quality, Department of	66.463	23,289	
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Quality, Department of	66.468	7,735,983	
Operator Training and Certification Costs of Small Water Systems	Environmental Quality, Department of	66.471	248,560	
Water Protection Grants to the States	Environmental Quality, Department of	66.474	7,571	
Environmental Protection - Consolidated Research	Environmental Quality, Department of	66.500	36,368	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**FEDERAL GRANTOR AGENCY
PROGRAM OR CLUSTER TITLE**

STATE AGENCY

CFDA

AMOUNT

TYPE*

Surveys, Studies, Investigations and Special Purpose Grants	Agriculture, Department of	66.606	\$195	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Quality, Department of	66.606	1,650,161	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Quality, Department of	66.606	3,579	PT
Surveys, Studies, Investigations and Special Purpose Grants	Water Resources, Department of	66.606	180,077	
Environmental Information Exchange Network Grant Program	Environmental Quality, Department of	66.608	157,505	
Protection of Children and Older Adults from Environmental Health Risks	Health and Welfare, Department of	66.609	17,570	
Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture, Department of	66.700	409,085	
Pollution Prevention Grants Program	Environmental Quality, Department of	66.708	161,402	
Source Reduction Assistance	Environmental Quality, Department of	66.717	2,044	
Source Reduction Assistance	Environmental Quality, Department of	66.717	2	PT
Hazardous Waste Management State Program Support	Environmental Quality, Department of	66.801	194,933	
Superfund State, Political Subdivision, and Indian Tribe Site	Environmental Quality, Department of	66.802	13,538,137	
State and Tribal Underground Storage Tanks Program	Environmental Quality, Department of	66.804	120,931	
Leaking Underground Storage Tank Trust Fund Program	Environmental Quality, Department of	66.805	605,349	
Solid Waste Management Assistance Grants	Environmental Quality, Department of	66.808	20,993	
Solid Waste Management Assistance Grants	Environmental Quality, Department of	66.808	317	PT
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Quality, Department of	66.809	105,532	
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	635,183	
State and Tribal Response Program Grants	Environmental Quality, Department of	66.817	7,279	PT
Environmental Education Grants	Health and Welfare, Department of	66.951	12,975	
Miscellaneous EPA Grants	Fish and Game, Department of	66.999	45	
TOTAL ENVIRONMENTAL PROTECTION AGENCY			\$38,878,323	

DEPARTMENT OF ENERGY

State Energy Program	Water Resources, Department of	81.041	\$1,072,411	
Weatherization Assistance for Low-Income Persons	Health and Welfare, Department of	81.042	2,000,923	
Regional Biomass Energy Programs	Water Resources, Department of	81.079	60,529	
Conservation Reserve Program	Water Resources, Department of	81.086	10,028	
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant	Environmental Quality, Department of	81.106	343,204	PT
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Water Resources, Department of	81.117	128,022	
State Energy Program Special Projects	Water Resources, Department of	81.119	379,221	
Environmental Permitting INEEL Oversight	Environmental Quality, Department of	81.502	3,284,734	
Lemhi Model/Clearwater Focus Watersheds	Agriculture, Department of	81.999	368,125	
Miscellaneous Bonneville Power Grants	Fish and Game, Department of	81.999	7,512,995	
Weatherization Conference	Health and Welfare, Department of	81.999	544,789	
Bonneville Power Pilot Program	Water Resources, Department of	81.999	300,364	
Miscellaneous Department of Energy Grants	Water Resources, Department of	81.999	795	PT
TOTAL DEPARTMENT OF ENERGY			\$16,006,140	

DEPARTMENT OF EDUCATION

SPECIAL EDUCATION CLUSTER:

Special Education-Grants to States	Superintendent of Public Instruction	84.027	\$50,674,367	
Special Education-Preschool Grants	Superintendent of Public Instruction	84.173	2,308,467	
TOTAL SPECIAL EDUCATION CLUSTER			\$52,982,834	

NON-CLUSTERED PROGRAMS:

Adult Education-State Grant Program	Superintendent of Public Instruction	84.002	\$2,167,139	
Title I Grants to Local Educational Agencies	Superintendent of Public Instruction	84.010	42,658,632	
Migrant Education-State Grant Program	Superintendent of Public Instruction	84.011	4,548,821	
Title I Program for Neglected and Delinquent Children	Superintendent of Public Instruction	84.013	173,461	
Vocational Education-Basic Grants to States	Professional-Technical Education, Division of	84.048	7,111,962	
Leveraging Educational Assistance Partnership	Education, State Board of	84.069	150,402	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**FEDERAL GRANTOR AGENCY
PROGRAM OR CLUSTER TITLE**

STATE AGENCY

CFDA

AMOUNT

TYPE*

Rehabilitation Services-Vocational Rehabilitation Grants to States	Blind and Visually Impaired, Comm. for the	84.126	\$2,030,261	
Rehabilitation Services-Vocational Rehabilitation Grants to States	Vocational Rehabilitation, Division of	84.126	12,758,517	
Rehabilitation Services-Service Projects	Vocational Rehabilitation, Division of	84.128	166,858	
Independent Living-State Grants	Blind and Visually Impaired, Comm. for the	84.169	136,653	
Independent Living-State Grants	Vocational Rehabilitation, Division of	84.169	177,309	
Independent Living Services for Older Individuals who are Blind	Blind and Visually Impaired, Comm. for the	84.177	320,084	
Special Education-Grants for Infants and Families with Disabilities	Health and Welfare, Department of	84.181	2,160,317	
Safe and Drug-Free Schools and Communities-National Program	Superintendent of Public Instruction	84.184	6,218	
Byrd Honors Scholarships	Education, State Board of	84.185	199,500	
Safe and Drug-Free Schools and Communities-State Grants	Superintendent of Public Instruction	84.186	2,357,274	
Supported Employment Services for Individuals with Severe Disabilities	Blind and Visually Impaired, Comm. for the	84.187	3,631	
Supported Employment Services for Individuals with Severe Disabilities	Vocational Rehabilitation, Division of	84.187	300,433	
Education for Homeless Children and Youth	Superintendent of Public Instruction	84.196	212,831	
Even Start-State Educational Agencies	Superintendent of Public Instruction	84.213	939,957	
Fund for the Improvement of Education	Superintendent of Public Instruction	84.215	655,990	
Projects with Industry	Professional-Technical Education, Division of	84.234	273,496	
Tech-Prep Education	Professional-Technical Education, Division of	84.243	330,544	
State Vocational Rehabilitation Unit In-Service Training	Blind and Visually Impaired, Comm. for the	84.265	28,678	
State Vocational Rehabilitation Unit In-Service Training	Vocational Rehabilitation, Division of	84.265	63,157	
Charter Schools	Superintendent of Public Instruction	84.282	2,488,174	
Twenty-First Century Community Learning Centers	Superintendent of Public Instruction	84.287	3,939,086	
Ready-to-Learn Television	Public Television, Idaho	84.295	9,418	
Ready-to-Learn Television	Public Television, Idaho	84.295	22,606	PT
State Grants for Innovative Programs	Superintendent of Public Instruction	84.298	1,168,201	
Civic Education-Cooperative Education Exchange Program	Superintendent of Public Instruction	84.304	179,928	PT
Education Technology State Grants	Superintendent of Public Instruction	84.318	2,360,317	
Special Education-State Personnel Development	Superintendent of Public Instruction	84.323	876,469	
Advanced Placement Program	Education, State Board of	84.330	12,122	
Comprehensive School Reform Demonstration	Superintendent of Public Instruction	84.332	1,390,999	
Teacher Quality Enhancement Grants	Education, State Board of	84.336	116,083	
Transition to Teaching	Education, State Board of	84.350	84,859	
Reading First State Grants	Superintendent of Public Instruction	84.357	3,463,796	
Rural Education	Superintendent of Public Instruction	84.358	149,486	
English Language Acquisition Grants	Education, State Board of	84.365	1,748,116	
Mathematics and Science Partnerships	Superintendent of Public Instruction	84.366	580,245	
Improving Teacher Quality State Grants	Education, State Board of	84.367	302,993	
Improving Teacher Quality State Grants	Superintendent of Public Instruction	84.367	13,758,696	
Grants for State Assessments and Related Activities	Education, State Board of	84.369	3,944,402	
Basic Participation	Superintendent of Public Instruction	84.999	9,656	
PBDMI Program	Superintendent of Public Instruction	84.999	2,016	
NAEP Program	Superintendent of Public Instruction	84.999	101,581	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$116,641,374</u>	
TOTAL DEPARTMENT OF EDUCATION			<u>\$169,624,208</u>	

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

National Historic Publications and Records Grants Historical Society, Idaho State

89.003

\$6,971

TOTAL NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

\$6,971

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
HEALTH AND HUMAN SERVICES				
AGING CLUSTER:				
Grants for Supportive Services and Senior Centers	Aging, Idaho Commission on	93.044	\$2,114,870	
Nutrition Services	Aging, Idaho Commission on	93.045	2,443,586	
Nutrition Services Incentive Program	Aging, Idaho Commission on	93.053	587,295	
TOTAL AGING CLUSTER			\$5,145,751	
CHILD CARE CLUSTER:				
Child Care and Development Block Grant	Health and Welfare, Department of	93.575	\$17,865,179	
Child Care Mandatory and Matching Funds	Health and Welfare, Department of	93.596	8,843,996	
TOTAL CHILD CARE CLUSTER			\$26,709,175	
MEDICAID CLUSTER:				
State Survey and Certification of Health Care Providers and Suppliers	Health and Welfare, Department of	93.777	\$2,654,986	
Medical Assistance Program	Health and Welfare, Department of	93.778	770,614,769	
TOTAL MEDICAID CLUSTER			\$773,269,755	
NON-CLUSTERED PROGRAMS:				
Public Health and Social Services Emergency Fund	Health and Welfare, Department of	93.003	\$116,867	
Programs for Elder Abuse, Neglect, and Exploitation	Aging, Idaho Commission on	93.041	25,756	
Long-Term Care Ombudsman Services for Older Individuals	Aging, Idaho Commission on	93.042	56,585	
Disease Prevention and Health Promotion Services	Aging, Idaho Commission on	93.043	82,446	
Discretionary Projects	Aging, Idaho Commission on	93.048	280,081	
Discretionary Projects	Health and Welfare, Department of	93.048	32,371	
Alzheimer's Disease Demonstration Grants to States	Aging, Idaho Commission on	93.051	244,821	
National Family Caregiver Support	Aging, Idaho Commission on	93.052	684,872	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	Health and Welfare, Department of	93.104	790,680	
Maternal and Child Health Federal Consolidated Programs	Health and Welfare, Department of	93.110	204,460	
Maternal and Child Health Federal Consolidated Programs	Health and Welfare, Department of	93.110	20,140	PT
Project Grants and Coop. Agreements for Tuberculosis Control	Health and Welfare, Department of	93.116	157,322	
Emergency Medical Services for Children	Health and Welfare, Department of	93.127	114,178	
Primary Care Services Resource Coordination and Development	Health and Welfare, Department of	93.130	108,781	
Injury Prevention and Control Research	Health and Welfare, Department of	93.136	220,571	
AIDS Education and Training Centers	Health and Welfare, Department of	93.145	111,819	PT
Projects for Assistance In Transition From Homelessness	Health and Welfare, Department of	93.150	271,144	
Family Planning-Services	Health and Welfare, Department of	93.217	1,684,753	
Traumatic Brain Injury State Demonstration Grant Program	Health and Welfare, Department of	93.234	198,244	
Abstinence Education Program	Health and Welfare, Department of	93.235	257,295	
State Capacity Building	Health and Welfare, Department of	93.240	191,208	
State Rural Hospital Flexibility Program	Health and Welfare, Department of	93.241	405,004	
Substance Abuse and Mental Health Services	Health and Welfare, Department of	93.243	45,738	
Substance Abuse and Mental Health Services	Judicial Department	93.243	245,278	
Universal Newborn Hearing Screening	Health and Welfare, Department of	93.251	129,940	
State Planning Grants Health Care Access for the Uninsured	Health and Welfare, Department of	93.256	104,391	
Rural Access to Emergency Devices Grant	Health and Welfare, Department of	93.259	82,467	
Immunization Grants	Health and Welfare, Department of	93.268	1,664,212	
Immunization Grants	Health and Welfare, Department of	93.268	1,837,500	NC
Substance Abuse and Mental Health Services-Access to Recovery	Health and Welfare, Department of	93.275	6,557,731	
Centers For Disease Control and Prevention-Investigations/Technical Assist.	Health and Welfare, Department of	93.283	11,144,186	
Small Rural Hospital Improvement Grant Program	Health and Welfare, Department of	93.301	319,986	
Minority Health and Health Disparities Research	Hispanic Commission	93.307	7,960	PT
Promoting Safe and Stable Families	Health and Welfare, Department of	93.556	1,612,568	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR AGENCY PROGRAM OR CLUSTER TITLE	STATE AGENCY	CFDA	AMOUNT	TYPE*
Temporary Assistance For Needy Families	Health and Welfare, Department of	93.558	\$33,007,636	
Child Support Enforcement	Health and Welfare, Department of	93.563	17,136,908	
Refugee and Entrant Assistance-State Administered Programs	Health and Welfare, Department of	93.566	577,264	
Low-Income Home Energy Assistance	Health and Welfare, Department of	93.568	12,393,107	
Community Services Block Grant	Health and Welfare, Department of	93.569	3,200,596	
Community Services Block Grant Formula and Discretionary Awards				
Community Food and Nutrition Programs	Health and Welfare, Department of	93.571	12,172	
Refugee and Entrant Assistance-Discretionary Grants	Superintendent of Public Instruction	93.576	32,253	
State Court Improvement	Judicial Department	93.586	121,709	
State Court Improvement	Judicial Department	93.586	111,499	PT
Grants To States For Access and Visitation Programs	Health and Welfare, Department of	93.597	89,933	
Chafee Education and Training Vouchers Program	Health and Welfare, Department of	93.599	89,139	
Head Start	Health and Welfare, Department of	93.600	151,421	
Adoption Incentive Payments	Health and Welfare, Department of	93.603	249,927	
Voting Access for Individuals with Disabilities-Grants to States	Secretary of State	93.617	148,326	
Developmental Disabilities Basic Support and Advocacy Grants	Health and Welfare, Department of	93.630	472,719	
Children's Justice Grants To States	Health and Welfare, Department of	93.643	139,013	
Child Welfare Services-State Grants	Health and Welfare, Department of	93.645	1,740,362	
Foster Care Title IV E	Health and Welfare, Department of	93.658	9,134,233	
Adoption Assistance	Health and Welfare, Department of	93.659	3,365,791	
Social Services Block Grant	Health and Welfare, Department of	93.667	6,935,860	
Child Abuse and Neglect State Grants	Health and Welfare, Department of	93.669	364,835	
Family Violence Protection and Services for Battered Women's Shelters	Health and Welfare, Department of	93.671	1,021,709	
Chafee Foster Care Independence Program	Health and Welfare, Department of	93.674	588,262	
State Children's Insurance Program	Health and Welfare, Department of	93.767	17,554,796	
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	Health and Welfare, Department of	93.768	429,691	
CMS Research, Demonstrations and Evaluations	Health and Welfare, Department of	93.779	1,620,949	
CMS Research, Demonstrations and Evaluations	Insurance, Department of	93.779	303,100	
National Bioterrorism Hospital Preparedness Program	Health and Welfare, Department of	93.889	2,988,717	
Grants To States For Operation of Offices of Rural Health	Health and Welfare, Department of	93.913	197,371	
HIV Care Formula Grants	Health and Welfare, Department of	93.917	883,268	
Comprehensive School Health Programs to Prevent the Spread of HIV	Superintendent of Public Instruction	93.938	242,014	
HIV Prevention Activities-Health Department Based	Health and Welfare, Department of	93.940	955,993	
HIV/AIDS Surveillance	Health and Welfare, Department of	93.944	71,319	
Trauma Care Systems Planning and Development	Health and Welfare, Department of	93.952	70,123	
Block Grants For Community Mental Health Services	Health and Welfare, Department of	93.958	1,185,167	
Block Grants For Prevention and Treatment of Substance Abuse	Health and Welfare, Department of	93.959	7,482,412	
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Welfare, Department of	93.977	376,679	
Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Welfare, Department of	93.988	379,834	
Preventive Health and Health Services Block Grant to the States	Health and Welfare, Department of	93.991	368,232	
Maternal and Child Health Services Block Grant to the States	Health and Welfare, Department of	93.994	3,041,161	
Mad Cow Inspections	Agriculture, Department of	93.999	3,450	
Health Resources and Services Administration	Commerce and Labor, Department of	93.999	8,641	
Miscellaneous Health and Human Services Grants	Health and Welfare, Department of	93.999	242,594	
Drug Alcohol Information	Health and Welfare, Department of	93.999	56,502	
Vital Statistics Grants	Health and Welfare, Department of	93.999	163,279	
State EPI Outcomes	Health and Welfare, Department of	93.999	12,664	
TOTAL NON-CLUSTERED PROGRAMS			<u>\$159,733,985</u>	
TOTAL HEALTH AND HUMAN SERVICES			<u>\$964,858,666</u>	

*Type of assistance other than direct cash. NC = non-cash; PT = pass-through
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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**FEDERAL GRANTOR AGENCY
PROGRAM OR CLUSTER TITLE**

STATE AGENCY

CFDA

AMOUNT

TYPE*

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

State Commissions	Correction, Department of	94.003	\$66,928
Learn and Serve America-School and Community Based Programs	Correction, Department of	94.004	71,325
Learn and Serve America-School and Community Based Programs	Superintendent of Public Instruction	94.004	88,031
Americorps	Correction, Department of	94.006	1,262,674
Training and Technical Assistance	Correction, Department of	94.009	83,703
Volunteers in Service to America	Superintendent of Public Instruction	94.013	51,478
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>\$1,624,139</u>

SOCIAL SECURITY ADMINISTRATION

DISABILITY INSURANCE/SSI CLUSTER:

Social Security-Disability Insurance	Commerce and Labor, Department of	96.001	\$7,334,859
TOTAL DISABILITY INSURANCE/SSI CLUSTER			<u>\$7,334,859</u>

NON-CLUSTERED PROGRAMS:

Social Security-Work Incentives Planning and Assistance Program	Vocational Rehabilitation, Division of	96.008	\$67,618
Social Security Death Report	Health and Welfare, Department of	96.999	31,519
Social Security Death Report	Health and Welfare, Department of	96.999	1,509
TOTAL NON-CLUSTERED PROGRAMS			<u>\$100,646</u>
TOTAL SOCIAL SECURITY ADMINISTRATION			<u>\$7,435,505</u>

DEPARTMENT OF HOMELAND SECURITY

HOMELAND SECURITY CLUSTER:

State Domestic Preparedness Equipment Support Program	Military, Division of	97.004	\$18,612,813
Homeland Security Grant Program	Military, Division of	97.067	1,677,059
TOTAL HOMELAND SECURITY CLUSTER			<u>\$20,289,872</u>

NON-CLUSTERED PROGRAMS:

Boating Safety Financial Assistance	Parks and Recreation, Department of	97.012	\$690,776
Pre-Disaster Mitigation Competitive Grants	Military, Division of	97.017	36,725
National Fire Academy Educational Program	Professional-Technical Education, Division of	97.019	16,438
Hazardous Materials Assistance Programs	Military, Division of	97.021	10,000
Community Assistance Program State Support Services Element	Water Resources, Department of	97.023	82,174
Flood Mitigation Assistance	Military, Division of	97.029	129,579
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military, Division of	97.036	640,754
National Dam Safety Program	Water Resources, Department of	97.041	51,427
Emergency Management Performance Grants	Military, Division of	97.042	31,202
MAP Modernization Management Support	Water Resources, Department of	97.070	69,961
Buffer Zone Protection Plan	Military, Division of	97.078	4,550
TOTAL NON-CLUSTERED PROGRAMS			<u>\$1,763,586</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>\$22,053,458</u>

TOTAL EXPENDITURES OF FEDERAL AWARDS

\$1,924,167,021

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The accompanying notes are an integral part of the financial statements.

**SUPPLEMENTARY SCHEDULE
OF
EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY**

STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
ADMINISTRATION, DEPARTMENT OF				
U.S. Geological Survey-Research and Data Collection	Department of Interior	15.808	\$2,489	NC
Donation of Federal Surplus Personal Property	General Services Administration	39.003	1,854,816	
TOTAL ADMINISTRATION, DEPARTMENT OF			<u>\$1,857,305</u>	
AGING, IDAHO COMMISSION ON				
Senior Community Service Employment Program	Department of Labor	17.235	\$393,227	PT
Programs for Elder Abuse, Neglect, and Exploitation	Health and Human Services	93.041	25,756	
Long-term Care Ombudsman Services for Older Individuals	Health and Human Services	93.042	56,585	
Disease Prevention and Health Promotion Services	Health and Human Services	93.043	82,446	
Grants for Supportive Services and Senior Centers	Health and Human Services	93.044	2,114,870	
Nutrition Services	Health and Human Services	93.045	2,443,586	
Discretionary Projects	Health and Human Services	93.048	280,081	
Alzheimer's Disease Demonstration Grants to States	Health and Human Services	93.051	244,821	
National Family Caregiver Support	Health and Human Services	93.052	684,872	
Nutrition Services Incentive Program	Health and Human Services	93.053	587,295	
TOTAL AGING, IDAHO COMMISSION ON			<u>\$6,913,539</u>	
AGRICULTURE, DEPARTMENT OF				
Plant and Animal Disease, Pest Control, and Animal Care	Department of Agriculture	10.025	\$1,728,594	PT
Federal-State Marketing Improvement Program	Department of Agriculture	10.156	50,000	
Inspection Grading and Standardization	Department of Agriculture	10.162	67,457	
Market Protection and Promotion	Department of Agriculture	10.163	61,287	
Specialty Crop Block Grant Program	Department of Agriculture	10.169	324,995	
Homeland Security-Agricultural	Department of Agriculture	10.304	5,368	
Cooperative Forestry Assistance	Department of Agriculture	10.664	1,129,958	
Watershed Surveys and Planning	Department of Agriculture	10.906	40,025	
Aquatic Plant Control	Department of Defense	12.100	75	
Landowner Incentive	Department of Interior	15.633	6,447	
Noxious Weed Strategic Plan	Department of Interior	15.999	471,329	
Slickspot Peppergrass Control	Department of Interior	15.999	22,526	
Regional Wetland Program Development Grants	Environmental Protection Agency	66.461	22,762	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Protection Agency	66.606	195	
Consolidated Pesticide Enforcement Cooperative Agreements	Environmental Protection Agency	66.700	409,085	
Lemhi Model/Clearwater Focus Watersheds	Department of Energy	81.999	368,125	
Mad Cow Inspections	Health and Human Services	93.999	3,450	
TOTAL AGRICULTURE, DEPARTMENT OF			<u>\$4,711,678</u>	
ARTS, COMMISSION ON THE				
Promotion of the Arts-Grants to Organizations and Individuals	National Foundation on the Arts	45.024	\$6,267	
Promotion of the Arts-Partnership Agreements	National Foundation on the Arts	45.025	635,681	
Promotion of the Arts-Leadership Initiative	National Foundation on the Arts	45.026	23,720	
TOTAL ARTS, COMMISSION ON THE			<u>\$665,668</u>	
BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE				
Vocational Rehabilitation Grants to States	Department of Education	84.126	\$2,030,261	
Independent Living-State Grants	Department of Education	84.169	136,653	
Independent Living Services for Older Individuals who are Blind	Department of Education	84.177	320,084	
Supported Employment Services for Individuals w/Severe Disabilities	Department of Education	84.187	3,631	
State Vocational Rehabilitation Unit In-Service Training	Department of Education	84.265	28,678	
BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE			<u>\$2,519,307</u>	
BUILDING SAFETY, DIVISION OF				
Manufactured Home Construction and Safety Standards	Housing/Urban Development	14.171	\$54,966	
TOTAL BUILDING SAFETY, DIVISION OF			<u>\$54,966</u>	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
COMMERCE AND LABOR, DEPARTMENT OF				
National Forest-Dependent Rural Communities	Department of Agriculture	10.670	\$16,000	
Rural Development, Forestry, and Communities	Department of Agriculture	10.672	93,472	
Economic Adjustment Assistance	Department of Commerce	11.307	10,911	
Procurement Technical Assistance for Business Firms	Department of Defense	12.002	241,303	
Community Development Block Grants/State's Program	Housing/Urban Development	14.228	9,216,767	
Labor Force Statistics	Department of Labor	17.002	740,880	
Labor Certification for Alien Workers	Department of Labor	17.203	207,145	
Employment Service/Wagner-Peyser Funded Activities	Department of Labor	17.207	7,136,657	
Unemployment Insurance	Department of Labor	17.225	128,886,390	
Senior Community Service Employment Program	Department of Labor	17.235	261,115	
Trade Adjustment Assistance	Department of Labor	17.245	1,979,899	
WIA Adult Program	Department of Labor	17.258	2,385,000	
WIA Youth Activities	Department of Labor	17.259	2,443,884	
WIA Dislocated Workers	Department of Labor	17.260	5,992,807	
WIA Pilots, Demonstrations, and Research Projects	Department of Labor	17.261	275,451	
Disabled Veterans' Outreach Program	Department of Labor	17.801	333,601	
Local Veterans' Employment Representative Program	Department of Labor	17.804	728,420	
Transition Assistance Program	Department of Labor	17.807	13,793	
Health Resources and Services Administration	Health and Human Services	93.999	8,641	
Social Security-Disability Insurance	Social Security Administration	96.001	7,334,859	
TOTAL COMMERCE AND LABOR, DEPARTMENT OF			<u>\$168,306,995</u>	
CORRECTION, DEPARTMENT OF				
Edward Byrne Memorial Formula Grant Program	Department of Justice	16.579	\$381,878	
State Criminal Alien Assistance Program	Department of Justice	16.606	270,351	
Protecting Inmates and Safeguarding Communities Discretionary Grant	Department of Justice	16.735	150,883	
State Commissions	Corp for Community Service	94.003	66,928	
Learn and Serve America-School and Community Based Programs	Corp for Community Service	94.004	71,325	
Americorps	Corp for Community Service	94.006	1,262,674	
Training and Technical Assistance	Corp for Community Service	94.009	83,703	
TOTAL CORRECTION, DEPARTMENT OF			<u>\$2,287,742</u>	
EDUCATION, STATE BOARD OF				
Leveraging Educational Assistance Partnership	Department of Education	84.069	\$150,402	
Byrd Honors Scholarships	Department of Education	84.185	199,500	
Advanced Placement Program	Department of Education	84.330	12,122	
Teacher Quality Enhancement Grants	Department of Education	84.336	116,083	
Transition to Teaching	Department of Education	84.350	84,859	
English Language Acquisition Grants	Department of Education	84.365	1,748,116	
Improving Teacher Quality State Grants	Department of Education	84.367	302,993	
Grants for State Assessments and Related Activities	Department of Education	84.369	3,944,402	
TOTAL EDUCATION, STATE BOARD OF			<u>\$6,558,477</u>	
ENVIRONMENTAL QUALITY, DEPARTMENT OF				
Agreement Program for the Reimbursement of Technical Services	Department of Defense	12.113	\$123,181	
DOI BLM Wood River	Department of Interior	15.999	684	
Coeur d'Alene Basin Projects	Department of Interior	15.999	88,697	
Air Pollution Control Program Support	Environmental Protection Agency	66.001	984,789	
Air Pollution Control Program Support	Environmental Protection Agency	66.001	75,000	NC
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Protection Agency	66.034	338,679	
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Protection Agency	66.034	116,427	NC
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Protection Agency	66.034	42,964	PT
Water Pollution Control State, Interstate, and Tribal Program Support	Environmental Protection Agency	66.419	1,184,319	
State Public Water System Supervision	Environmental Protection Agency	66.432	1,333,364	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Clean Water Act	Environmental Protection Agency	66.436	\$118,043	
Construction Management Assistance	Environmental Protection Agency	66.438	63,437	
Water Quality Management Planning	Environmental Protection Agency	66.454	110,085	
Capitalization Grants for Clean Water State Revolving Funds	Environmental Protection Agency	66.458	5,340,539	
Nonpoint Source Implementation Grants	Environmental Protection Agency	66.460	2,891,099	
Water Quality Cooperative Agreements	Environmental Protection Agency	66.463	23,289	
Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency	66.468	7,735,983	
Operator Training and Certification Costs of Small Water Systems	Environmental Protection Agency	66.471	248,560	
Water Protection Grants to the States	Environmental Protection Agency	66.474	7,571	
Environmental Protection-Consolidated Research	Environmental Protection Agency	66.500	36,368	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Protection Agency	66.606	1,650,161	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Protection Agency	66.606	3,579	PT
Environmental Information Exchange Network Grant Program	Environmental Protection Agency	66.608	157,505	
Pollution Prevention Grants Program	Environmental Protection Agency	66.708	161,402	
Source Reduction Assistance	Environmental Protection Agency	66.717	2,044	
Source Reduction Assistance	Environmental Protection Agency	66.717	2	PT
Hazardous Waste Management State Program Support	Environmental Protection Agency	66.801	194,933	
Superfund State, Political Subdivision, and Indian Tribe Site	Environmental Protection Agency	66.802	13,538,137	
State and Tribal Underground Storage Tanks Program	Environmental Protection Agency	66.804	120,931	
Leaking Underground Storage Tank Trust Fund Program	Environmental Protection Agency	66.805	605,349	
Solid Waste Management Assistance Grants	Environmental Protection Agency	66.808	20,993	
Solid Waste Management Assistance Grants	Environmental Protection Agency	66.808	317	PT
Superfund State and Indian Tribe Core Program Cooperative Agreements	Environmental Protection Agency	66.809	105,532	
State and Tribal Response Program Grants	Environmental Protection Agency	66.817	635,183	
State and Tribal Response Program Grants	Environmental Protection Agency	66.817	7,279	PT
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant	Department of Energy	81.106	343,204	PT
Environmental Permitting INEEL Oversight	Department of Energy	81.502	3,284,734	
TOTAL ENVIRONMENTAL QUALITY, DEPARTMENT OF			\$41,694,363	
FISH AND GAME, DEPARTMENT OF				
Miscellaneous Forest Service Grants	Department of Agriculture	10.999	\$851,157	
Interjurisdictional Fisheries Act of 1986	Department of Commerce	11.407	1	
Columbia River Fisheries Development Program	Department of Commerce	11.436	1,209,122	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Department of Commerce	11.438	316,033	
Regional Fishery Management Councils	Department of Commerce	11.441	23,777	
Miscellaneous NOAA Grants	Department of Commerce	11.999	793,058	
Miscellaneous Army Corps of Engineers Grants	Department of Defense	12.999	234,346	
Sport Fish Restoration	Department of Interior	15.605	5,179,709	
Fish and Wildlife Management Assistance	Department of Interior	15.608	72,121	
Wildlife Restoration	Department of Interior	15.611	4,578,517	
Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	1,042,741	
Wildlife Conservation and Restoration	Department of Interior	15.625	19,256	
Landowner Incentive	Department of Interior	15.633	117,767	
Statewide Wildlife Grants	Department of Interior	15.634	526,129	
Miscellaneous Fish and Wildlife Service Grants	Department of Interior	15.999	5,014,149	
Miscellaneous Bureau of Reclamation Grants	Department of Interior	15.999	555,671	
Miscellaneous Bureau of Land Management Grants	Department of Interior	15.999	484,774	
Regional Wetland Program Development Grants	Environmental Protection Agency	66.461	142,363	
Miscellaneous EPA Grants	Environmental Protection Agency	66.999	45	
Miscellaneous Bonneville Power Grants	Department of Energy	81.999	7,512,995	
TOTAL FISH AND GAME, DEPARTMENT OF			\$28,673,731	
HEALTH AND WELFARE, DEPARTMENT OF				
Food Stamps	Department of Agriculture	10.551	\$101,184,389	NC
WIC Program	Department of Agriculture	10.557	20,663,224	
State Administrative Matching Grants for Food Stamp Program	Department of Agriculture	10.561	7,996,779	
Emergency Food Assistance Program (Administrative Costs)	Department of Agriculture	10.568	177,711	
Emergency Food Assistance Program (Food Commodities)	Department of Agriculture	10.569	961,756	NC

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Crime Victim Assistance	Department of Justice	16.575	\$1,812,301	
State Indoor Radon Grants	Environmental Protection Agency	66.032	89,751	
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities to the Clean Air Act	Environmental Protection Agency	66.034	36,091	
Protection of Children and Older Adults from Environmental Health Risks	Environmental Protection Agency	66.609	17,570	
Environmental Education Grants	Environmental Protection Agency	66.951	12,975	
Weatherization Assistance for Low-Income Persons	Department of Energy	81.042	2,000,923	
Weatherization Conference	Department of Energy	81.999	544,789	
Special Education- Grants for Infants and Families with Disabilities	Department of Education	84.181	2,160,317	
Public Health and Social Services Emergency Fund	Health and Human Services	93.003	116,867	
Discretionary Projects	Health and Human Services	93.048	32,371	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	Health and Human Services	93.104	790,680	
Maternal and Child Health Federal Consolidated Programs	Health and Human Services	93.110	204,460	
Maternal and Child Health Federal Consolidated Programs	Health and Human Services	93.110	20,140	PT
Project Grants and Coop. Agreements for Tuberculosis Control	Health and Human Services	93.116	157,322	
Emergency Medical Services for Children	Health and Human Services	93.127	114,178	
Primary Care Services Resource Coordination and Development	Health and Human Services	93.130	108,781	
Injury Prevention and Control Research	Health and Human Services	93.136	220,571	
AIDS Education and Training Centers	Health and Human Services	93.145	111,819	PT
Projects for Assistance In Transition From Homelessness	Health and Human Services	93.150	271,144	
Family Planning-Services	Health and Human Services	93.217	1,684,753	
Traumatic Brain Injury State Demonstration Grant Program	Health and Human Services	93.234	198,244	
Abstinence Education Program	Health and Human Services	93.235	257,295	
State Capacity Building	Health and Human Services	93.240	191,208	
State Rural Hospital Flexibility Program	Health and Human Services	93.241	405,004	
Substance Abuse and Mental Health Services	Health and Human Services	93.243	45,738	
Universal Newborn Hearing Screening	Health and Human Services	93.251	129,940	
State Planning Grants Health Care Access for the Uninsured	Health and Human Services	93.256	104,391	
Rural Access to Emergency Devices Grant	Health and Human Services	93.259	82,467	
Immunization Grants	Health and Human Services	93.268	1,664,212	
Immunization Grants	Health and Human Services	93.268	1,837,500	NC
Substance Abuse and Mental Health Services-Access to Recovery	Health and Human Services	93.275	6,557,731	
Centers For Disease Control and Prevention-Investigations/Technical Assist.	Health and Human Services	93.283	11,144,186	
Small Rural Hospital Improvement Grant Program	Health and Human Services	93.301	319,986	
Promoting Safe and Stable Families	Health and Human Services	93.556	1,612,568	
Temporary Assistance For Needy Families	Health and Human Services	93.558	33,007,636	
Child Support Enforcement	Health and Human Services	93.563	17,136,908	
Refugee and Entrant Assistance-State Administered Programs	Health and Human Services	93.566	577,264	
Low-Income Home Energy Assistance	Health and Human Services	93.568	12,393,107	
Community Services Block Grant	Health and Human Services	93.569	3,200,596	
Community Services Block Grant Formula and Discretionary Awards				
Community Food and Nutrition Programs	Health and Human Services	93.571	12,172	
Child Care and Development Block Grant	Health and Human Services	93.575	17,865,179	
Child Care Mandatory and Matching Funds	Health and Human Services	93.596	8,843,996	
Grants To States For Access and Visitation Programs	Health and Human Services	93.597	89,933	
Chafee Education and Training Vouchers Program	Health and Human Services	93.599	89,139	
Head Start	Health and Human Services	93.600	151,421	
Adoption Incentive Payments	Health and Human Services	93.603	249,927	
Developmental Disabilities Basic Support and Advocacy Grants	Health and Human Services	93.630	472,719	
Children's Justice Grants To States	Health and Human Services	93.643	139,013	
Child Welfare Services-State Grants	Health and Human Services	93.645	1,740,362	
Foster Care Title IV E	Health and Human Services	93.658	9,134,233	
Adoption Assistance	Health and Human Services	93.659	3,365,791	
Social Services Block Grant	Health and Human Services	93.667	6,935,860	
Child Abuse and Neglect State Grants	Health and Human Services	93.669	364,835	
Family Violence Protection and Services for Battered Women's Shelters	Health and Human Services	93.671	1,021,709	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY

FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Chafee Foster Care Independence Program	Health and Human Services	93.674	\$588,262	
State Children's Insurance Program	Health and Human Services	93.767	17,554,796	
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	Health and Human Services	93.768	429,691	
State Survey and Certification of Health Care Providers and Suppliers	Health and Human Services	93.777	2,654,986	
Medical Assistance Program	Health and Human Services	93.778	770,614,769	
CMS Research, Demonstrations and Evaluations	Health and Human Services	93.779	1,620,949	
National Bioterrorism Hospital Preparedness Program	Health and Human Services	93.889	2,988,717	
Grants To States For Operation of Offices of Rural Health	Health and Human Services	93.913	197,371	
HIV Care Formula Grants	Health and Human Services	93.917	883,268	
HIV Prevention Activities-Health Department Based	Health and Human Services	93.940	955,993	
HIV/AIDS Surveillance	Health and Human Services	93.944	71,319	
Trauma Care Systems Planning and Development	Health and Human Services	93.952	70,123	
Block Grants For Community Mental Health Services	Health and Human Services	93.958	1,185,167	
Block Grants For Prevention and Treatment of Substance Abuse	Health and Human Services	93.959	7,482,412	
Preventive Health Services-Sexually Transmitted Diseases Control Grants	Health and Human Services	93.977	376,679	
Diabetes Control Programs and Evaluation of Surveillance Systems	Health and Human Services	93.988	379,834	
Preventive Health and Health Services Block Grant to the States	Health and Human Services	93.991	368,232	
Maternal and Child Health Services Block Grant To The State	Health and Human Services	93.994	3,041,161	
Miscellaneous Health and Human Services Grants	Health and Human Services	93.999	242,594	
Drug Alcohol Information	Health and Human Services	93.999	56,502	
Vital Statistics Grants	Health and Human Services	93.999	163,279	
State EPI Outcomes	Health and Human Services	93.999	12,664	
Social Security Death Report	Social Security Administration	96.999	33,028	
TOTAL HEALTH AND WELFARE, DEPARTMENT OF			<u>\$1,094,805,728</u>	
HISPANIC COMMISSION				
Minority Health and Health Disparities Research	Health and Human Services	93.307	\$7,960	PT
TOTAL HISPANIC COMMISSION			<u>\$7,960</u>	
HISTORICAL SOCIETY, IDAHO STATE				
Rural Development, Forestry, and Communities	Department of Agriculture	10.672	\$9,500	
CDBG/Brownfields Economic Development Initiative	Housing/Urban Development	14.246	60,756	PT
Cooperative Inspection Agreements with States and Tribes	Department of Interior	15.222	15,492	
Cultural Resource Management	Department of Interior	15.224	1,530	
Historic Preservation Fund Grants-in-Aid	Department of Interior	15.904	554,133	
Cost Share Lewis and Clark	Department of Interior	15.999	83,584	
National Historic Publications and Records Grants	Natl. Archives/Records Admin.	89.003	6,971	
TOTAL HISTORICAL SOCIETY, IDAHO STATE			<u>\$731,966</u>	
HUMAN RIGHTS COMMISSION				
Employment Discrimination-Fair Employment Practices Contracts	Equal Employ. Opportunity Comm.	30.002	\$202,974	
TOTAL HUMAN RIGHTS COMMISSION			<u>\$202,974</u>	
IDAHO STATE POLICE				
Marijuana Eradication Forest Service Grants	Department of Agriculture	10.999	\$17,776	
State Justice Statistics Program for Statistical Analysis Centers	Department of Justice	16.550	39,768	
National Criminal History Improvement Program	Department of Justice	16.554	164,091	
Crime Lab Improvement-Offender DNA Index System Backlog Reduction	Department of Justice	16.564	86,906	
Edward Byrne Memorial Formula Grant Program	Department of Justice	16.579	1,860,639	
Violence Against Women Formula Grants	Department of Justice	16.588	942,061	
Local Law Enforcement Block Grant Program	Department of Justice	16.592	144,933	
Residential Substance Abuse Treatment for State Prisoners	Department of Justice	16.593	154,597	
Community Prosecution and Project Safe Neighborhoods	Department of Justice	16.609	198,778	
Public Safety Partnership and Community Policing Grants	Department of Justice	16.710	31,553	
Edward Byrne Memorial Justice Assistance Grant Program	Department of Justice	16.738	502,268	

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The accompanying notes are an integral part of the financial statements.

**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
Paul Coverdell Forensic Sciences Improvement Grant Program	Department of Justice	16.742	\$7,855	
Marijuana Eradication Drug Enforcement Administration	Department of Justice	16.999	23,749	
Miscellaneous Department of Justice Grants	Department of Justice	16.999	2,055	
Organized Crime	Department of Justice	16.999	7,421	
National Motor Carrier Safety	Department of Transportation	20.218	1,922,507	
Miscellaneous Treasury Grants	Department of Treasury	21.999	239,053	
TOTAL IDAHO STATE POLICE			\$6,346,010	
IDAHO TRANSPORTATION DEPARTMENT				
Airport Improvement Program	Department of Transportation	20.106	\$3,553	
Highway Planning and Construction	Department of Transportation	20.205	258,214,213	
Federal Transit-Metropolitan Planning Grants	Department of Transportation	20.505	279,423	
Formula Grants for Other Than Urbanized Areas	Department of Transportation	20.509	2,924,917	
Capital Assistance Program for Elderly Persons and Persons with Disabilities	Department of Transportation	20.513	155,620	
Public Transportation Research	Department of Transportation	20.514	2,192	
State Planning and Research	Department of Transportation	20.515	70,134	
State and Community Highway Safety	Department of Transportation	20.600	1,047,677	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Department of Transportation	20.601	210,873	
Occupant Protection	Department of Transportation	20.602	3,293	
Federal Highway Safety Data Improvements Incentive Grants	Department of Transportation	20.603	191,212	
Safety Incentive Grants for Use of Seatbelts	Department of Transportation	20.604	618,677	
TOTAL IDAHO TRANSPORTATION DEPARTMENT			\$263,721,784	
INDUSTRIAL COMMISSION				
Crime Victim Compensation	Department of Justice	16.576	\$827,651	
Compensation and Working Conditions	Department of Labor	17.005	2,632	
TOTAL INDUSTRIAL COMMISSION			\$830,283	
INSURANCE, DEPARTMENT OF				
CMS Research, Demonstrations and Evaluations	Health and Human Services	93.779	\$303,100	
TOTAL INSURANCE, DEPARTMENT OF			\$303,100	
JUDICIAL DEPARTMENT				
Edward Byrne Memorial Law Enforcement Assistance Discretionary Grants	Department of Justice	16.580	\$24,118	PT
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Department of Justice	16.590	43,581	
Miscellaneous Department of Justice Grants	Department of Justice	16.999	119,645	
Substance Abuse and Mental Health Services	Health and Human Services	93.243	245,278	
State Court Improvement	Health and Human Services	93.586	121,709	
State Court Improvement	Health and Human Services	93.586	111,499	PT
TOTAL JUDICIAL DEPARTMENT			\$665,830	
JUVENILE CORRECTIONS, DEPARTMENT OF				
Juvenile Accountability Incentive Block Grants	Department of Justice	16.523	\$1,025,805	
Juvenile Justice and Delinquency Prevention-Allocation to States	Department of Justice	16.540	444,895	
Title V Delinquency Prevention Program	Department of Justice	16.548	47,092	
Part E State Challenge Activities	Department of Justice	16.549	104,889	
Enforcing Underage Drinking Laws Program	Department of Justice	16.727	315,028	
Miscellaneous Federal Communications Commission Grants	Fed. Communications Commission	32.999	33,212	
TOTAL JUVENILE CORRECTIONS, DEPARTMENT OF			\$1,970,921	
LANDS, DEPARTMENT OF				
Plant and Animal Disease, Pest Control, and Animal Care	Department of Agriculture	10.025	\$120,880	
Conservation Reserve Program	Department of Agriculture	10.069	8,235	
Cooperative Forestry Assistance	Department of Agriculture	10.664	5,412,425	
Rural Development, Forestry, and Communities	Department of Agriculture	10.672	309,784	
Forest Legacy Program	Department of Agriculture	10.676	3,477,581	
Forest Land Enhancement Program	Department of Agriculture	10.677	47,305	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

STATE AGENCY	FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
STATE AGENCY	Environmental Quality Incentives Program	Department of Agriculture	10.912	\$35,734	
	National Fire Plan-Wildland Urban Interface Community Fire Assistance	Department of Interior	15.228	38,400	
	Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	129,868	
	TOTAL LANDS, DEPARTMENT OF			<u>\$9,580,212</u>	
LIBRARY, IDAHO STATE					
LIBRARY, IDAHO STATE	CDBG/Brownfields Economic Development Initiative	Housing/Urban Development	14.246	\$13,040	PT
	Grants to States	National Foundation on the Arts	45.310	1,018,958	
	Grants to States	National Foundation on the Arts	45.310	2,000	PT
	TOTAL LIBRARY, IDAHO STATE			<u>\$1,033,998</u>	
MILITARY, DIVISION OF					
MILITARY, DIVISION OF	National Guard Military Operations and Maintenance Projects	Department of Defense	12.401	\$21,802,449	
	Community Development Block Grants/State's Program	Housing/Urban Development	14.228	24,227	
	Interagency Hazardous Materials Public Sector Training and Planning Grants	Department of Transportation	20.703	78,830	
	State Domestic Preparedness Equipment Support Program	Department of Homeland Security	97.004	18,612,813	
	Pre-Disaster Mitigation Competitive Grants	Department of Homeland Security	97.017	36,725	
	Hazardous Materials Assistance Programs	Department of Homeland Security	97.021	10,000	
	Flood Mitigation Assistance	Department of Homeland Security	97.029	129,579	
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Department of Homeland Security	97.036	640,754	
	Emergency Management Performance Grants	Department of Homeland Security	97.042	31,202	
	Homeland Security Grant Program	Department of Homeland Security	97.067	1,677,059	
	Buffer Zone Protection Plan	Department of Homeland Security	97.078	4,550	
	TOTAL MILITARY, DIVISION OF			<u>\$43,048,188</u>	
PARKS AND RECREATION, DEPARTMENT OF					
PARKS AND RECREATION, DEPARTMENT OF	Harriman State Park Restoration	Department of Agriculture	10.999	\$190	
	Sportfishing and Boating Safety Act	Department of Interior	15.622	100,000	
	Outdoor Recreation-Acquisition, Development and Planning	Department of Interior	15.916	1,198,985	
	BLM Trail Dozer	Department of Interior	15.999	1,583	
	Lake Walcott Projects	Department of Interior	15.999	95,702	
	City of Rocks National Parks Service	Department of Interior	15.999	315,263	
	Cascade Reservoir MOA	Department of Interior	15.999	197,488	
	Miscellaneous Department of Interior Grants	Department of Interior	15.999	93,759	
	Recreation Trails Program	Department of Transportation	20.219	747,611	
	Boating Safety Financial Assistance	Department of Homeland Security	97.012	690,776	
	TOTAL PARKS AND RECREATION, DEPARTMENT OF			<u>\$3,441,357</u>	
PROFESSIONAL-TECHNICAL EDUCATION, DIVISION OF					
PROFESSIONAL-TECHNICAL EDUCATION, DIVISION OF	Vocational Education-Basic Grants to States	Department of Education	84.048	\$7,111,962	
	Projects with Industry	Department of Education	84.234	273,496	
	Tech-Prep Education	Department of Education	84.243	330,544	
	National Fire Academy Educational Program	Department of Homeland Security	97.019	16,438	
	TOTAL PROFESSIONAL-TECHNICAL EDUCATION, DIVISION OF			<u>\$7,732,440</u>	
PUBLIC TELEVISION, IDAHO					
PUBLIC TELEVISION, IDAHO	Public Television Station Digital Transition Grant Program	Department of Agriculture	10.861	\$40,893	
	Public Telecommunications Facilities Planning and Construction	Department of Commerce	11.550	341,089	
	Ready-to-Learn Television	Department of Education	84.295	9,418	
	Ready-to-Learn Television	Department of Education	84.295	22,606	PT
	TOTAL PUBLIC TELEVISION, IDAHO			<u>\$414,006</u>	
PUBLIC UTILITIES COMMISSION					
PUBLIC UTILITIES COMMISSION	Pipeline Safety	Department of Transportation	20.700	\$79,598	
	TOTAL PUBLIC UTILITIES COMMISSION			<u>\$79,598</u>	

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STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

STATE AGENCY	FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
SECRETARY OF STATE					
	Election Reform	General Services Administration	39.999	\$2,976,045	
	Voting Access for Individuals with Disabilities-Grants to States	Health and Human Services	93.617	148,326	
	TOTAL SECRETARY OF STATE			<u>\$3,124,371</u>	
SPECIES CONSERVATION, OFFICE OF					
	Cost Share Agreement	Department of Agriculture	10.999	\$70,056	
	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Department of Commerce	11.438	3,512,128	
	Wildlife Restoration	Department of Interior	15.611	422,144	
	Cooperative Endangered Species Conservation Fund	Department of Interior	15.615	967,852	
	TOTAL SPECIES CONSERVATION, OFFICE OF			<u>\$4,972,180</u>	
SUPERINTENDENT OF PUBLIC INSTRUCTION					
	Food Donation	Department of Agriculture	10.550	\$3,640,115	NC
	School Breakfast Program	Department of Agriculture	10.553	10,129,776	
	National School Lunch Program	Department of Agriculture	10.555	34,097,261	
	Special Milk for Children	Department of Agriculture	10.556	246,905	
	Child and Adult Care Food Program	Department of Agriculture	10.558	5,218,047	
	Summer Food Service Program for Children	Department of Agriculture	10.559	2,534,312	
	State Administrative Expenses for Child Nutrition	Department of Agriculture	10.560	851,580	
	Team Nutrition Grants	Department of Agriculture	10.574	156,332	
	Team Nutrition Grants	Department of Agriculture	10.574	(400)	PT
	Child Nutrition Discretionary Grants Limited Availability	Department of Agriculture	10.579	164,963	
	Indian Education-Assistance to Schools	Department of Interior	15.130	41,067	
	Miscellaneous Veteran's Affairs Grants	Department of Veterans Affairs	64.999	157,057	
	Adult Education-State Grant Program	Department of Education	84.002	2,167,139	
	Title I Grants to Local Educational Agencies	Department of Education	84.010	42,658,632	
	Migrant Education-State Grant Program	Department of Education	84.011	4,548,821	
	Title I Program for Neglected and Delinquent Children	Department of Education	84.013	173,461	
	Special Education-Grants to States	Department of Education	84.027	50,674,367	
	Special Education-Preschool Grants	Department of Education	84.173	2,308,467	
	Safe and Drug-Free Schools and Communities-National Program	Department of Education	84.184	6,218	
	Safe and Drug-Free Schools and Communities-State Grants	Department of Education	84.186	2,357,274	
	Education for Homeless Children and Youth	Department of Education	84.196	212,831	
	Even Start-State Educational Agencies	Department of Education	84.213	939,957	
	Fund for the Improvement of Education	Department of Education	84.215	655,990	
	Charter Schools	Department of Education	84.282	2,488,174	
	Twenty-First Century Community Learning Centers	Department of Education	84.287	3,939,086	
	State Grants for Innovative Programs	Department of Education	84.298	1,168,201	
	Civic Education-Cooperative Education Exchange Program	Department of Education	84.304	179,928	PT
	Education Technology State Grants	Department of Education	84.318	2,360,317	
	Special Education-State Personnel Development	Department of Education	84.323	876,469	
	Comprehensive School Reform Demonstration	Department of Education	84.332	1,390,999	
	Reading First State Grants	Department of Education	84.357	3,463,796	
	Rural Education	Department of Education	84.358	149,486	
	Mathematics and Science Partnerships	Department of Education	84.366	580,245	
	Improving Teacher Quality State Grants	Department of Education	84.367	13,758,696	
	Basic Participation	Department of Education	84.999	9,656	
	PBDMI Program	Department of Education	84.999	2,016	
	NAEP Program	Department of Education	84.999	101,581	
	Refugee and Entrant Assistance-Discretionary Grants	Health and Human Services	93.576	32,253	
	Comprehensive School Health Programs to Prevent the Spread of HIV	Health and Human Services	93.938	242,014	
	Learn and Serve America-School and Community Based Programs	Corp for Community Service	94.004	88,031	
	Volunteers in Service to America	Corp for Community Service	94.013	51,478	
	TOTAL SUPERINTENDENT OF PUBLIC INSTRUCTION			<u>\$194,822,598</u>	

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**STATE OF IDAHO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY STATE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

STATE AGENCY FEDERAL PROGRAM TITLE	FEDERAL DEPARTMENT	CFDA	AMOUNT	TYPE*
VETERANS SERVICES DIVISION OF				
Veterans State Nursing Home Care	Department of Veterans Affairs	64.015	\$5,518,482	
State Cemetery Grants	Department of Veterans Affairs	64.203	287,879	
TOTAL VETERANS SERVICES DIVISION OF			<u>\$5,806,361</u>	
VOCATIONAL REHABILITATION, DIVISION OF				
Rehabilitation Services-Vocational Rehabilitation Grants to States	Department of Education	84.126	\$12,758,517	
Rehabilitation Services-Service Projects	Department of Education	84.128	166,858	
Independent Living-State Grants	Department of Education	84.169	177,309	
Supported Employment Services for Individuals with Severe Disabilities	Department of Education	84.187	300,433	
State Vocational Rehabilitation Unit In-Service Training	Department of Education	84.265	63,157	
Social Security-Work Incentives Planning and Assistance Program	Social Security Administration	96.008	67,618	
TOTAL VOCATIONAL REHABILITATION, DIVISION OF			<u>\$13,533,892</u>	
WATER RESOURCES, DEPARTMENT OF				
Miscellaneous Bureau of Reclamation Grants	Department of Interior	15.999	\$298,938	
State Underground Water Source Protection	Environmental Protection Agency	66.433	113,546	
Surveys, Studies, Investigations and Special Purpose Grants	Environmental Protection Agency	66.606	180,077	
State Energy Program	Department of Energy	81.041	1,072,411	
Regional Biomass Energy Programs	Department of Energy	81.079	60,529	
Conservation Reserve Program	Department of Energy	81.086	10,028	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Department of Energy	81.117	128,022	
State Energy Program Special Projects	Department of Energy	81.119	379,221	
Bonneville Power Pilot Program	Department of Energy	81.999	300,364	
Miscellaneous Department of Energy Grants	Department of Energy	81.999	795	PT
Community Assistance Program State Support Services Element	Department of Homeland Security	97.023	82,174	
National Dam Safety Program	Department of Homeland Security	97.041	51,427	
MAP Modernization Management Support	Department of Homeland Security	97.070	69,961	
TOTAL WATER RESOURCES, DEPARTMENT OF			<u>\$2,747,493</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$1,924,167,021</u></u>	

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The accompanying notes are an integral part of the financial statements.

**NOTES TO SUPPLEMENTARY SCHEDULES
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE #1 PURPOSE OF THE SCHEDULE

The Supplementary Schedules of Expenditures of Federal Awards (schedules) are in addition to the State's basic financial statements, and are presented for purposes of additional analysis. The schedules are required by Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE #2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal program.

A. REPORTING ENTITY

The reporting entity includes all federal awards administered by those State departments and entities included in the State's *Comprehensive Annual Financial Report (CAFR)*, except for the colleges and universities. The Schedules of Expenditures of Federal Awards for colleges and universities are audited by independent certified public accountants and published under separate cover.

B. BASIS OF ACCOUNTING

The supplementary schedules were prepared using the cash basis method of accounting. Disbursements are recognized when paid rather than when obligations are incurred. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic statements.

C. BASIS OF PRESENTATION

Expenditures of Federal Awards – Pursuant to the *Single Audit Act of 1984* (Public Law 98-502), the *Single Audit Act Amendments of 1996* (Public Law 104-156), and *OMB Circular A-133*, a federal award is assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary assistance, including food commodities and food stamps, is considered federal assistance, and is therefore reported on the schedules. Contracts between the State and federal government for which the federal government procures tangible goods or services are not considered to be expenditures of federal awards.

Catalog of Federal Domestic Assistance – *OMB Circular A-133* requires the schedules to show total expenditures for each of the State's federal assistance programs, as identified in the *Catalog of Federal Domestic Assistance* (CFDA). The CFDA is a government-wide compendium of individual federal programs. Federal award programs that have not been assigned a CFDA number are identified with the first two digits that identify the federal grantor department followed by ".999."

Major and Nonmajor Programs – *OMB Circular A-133* establishes a risk-based approach to determine which federal programs are major programs. This risk-based approach includes consideration of current and prior audit experience, oversight by grantor agencies, and the inherent risk of the federal program.

Program Clusters – Closely related programs with different CFDA numbers that share common compliance requirements are considered "program clusters." The only program clusters presented on the schedule are those mandated by the *OMB Circular A-133 Compliance Supplement*. The schedule is structured to present the federal assistance information by cluster, with the title of the cluster appearing in the heading. Programs not included within a designated cluster are presented under the title "non-clustered programs."

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

Valuation of Noncash Assistance – Noncash expenditures of federal awards were determined as follows:

- a. Food Donation (CFDA 10.550) and Emergency Food Assistance (CFDA 10.569) – reported at fair market value of the food commodities distributed.
- b. Food Stamps (CFDA 10.551) – reported at face value of the food stamps distributed.
- c. Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at fair market value of the donated property as determined by the grantor agency at the time of receipt, plus costs incurred by the agency to put the asset into service.
- d. Air Pollution Control Program (CFDA 66.001) – reported at fair market value of the goods and services included as in-kind match.
- e. Surveys, Studies, Investigations, Demonstrations, and Training activities relating to the Clean Air Act (CFDA 66.034) – reported at fair market value of the goods and services included as in-kind match.
- f. Immunization Grants (CFDA 93.268) – reported at the federally assigned value of the serum distributed.

NOTE #3 PASS-THROUGH ASSISTANCE

Some State agencies receive federal awards from non-federal entities to carry out federal programs. These awards are identified by "PT" on the Schedules of Expenditures of Federal Awards. The following is additional information about these awards.

- A. CFDA 10.304 – The State Department of Agriculture received U.S. Department of Agriculture, Homeland Security funds from the University of California. The Department reported expenditures of \$5,368. (Grantor number K007797-16)
- B. CFDA 10.574 – The Superintendent of Public Instruction received U.S. Department of Agriculture Food and Nutrition funds from the University of Mississippi. The Superintendent reported expenditures of <\$400>. (Grantor number NF9480)
- C. CFDA 14.246 – The State Library and the State Historical Society received U.S. Housing and Urban Development funds from the Log Cabin Literacy Center. The Library and Historical reported expenditures of \$13,040 and \$60,756, respectively. (Grantor number EDI-SP B-03-ID-0203)
- D. CFDA 16.580 – The Judicial Department received Department of Justice funds from Ada County. The Department reported expenditures of \$24,118. (Grantor number 03-BYRN-11-IC-1)
- E. CFDA 45.310 – The State Library received U.S. National Foundation on the Arts and Humanities funds from the Chief Officers of State Library Agencies. The Library reported expenditures of \$2,000. (Grantor number n/a)
- F. CFDA 66.034 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Nez Perce Tribe. The Department reported expenditures of \$42,964. (Grantor number MOA OAREMAD0308)
- G. CFDA 66.606 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Coeur d'Alene and Kootenai Tribes. The Department reported expenditures of \$3,579. (Grantor number n/a)
- H. CFDA 66.717 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Oregon Center for Environmental Health. The Department reported expenditures of \$2. (Grantor number n/a)

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

- I. CFDA 66.808 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from the Oregon Center for Environmental Protection. The Department reported expenditures of \$317. (Grantor number n/a)
- J. CFDA 66.817 – The Department of Environmental Quality received U.S. Environmental Protection Agency funds from Sage Community Resource. The Department reported expenditures of \$7,279. (Grantor number n/a)
- K. CFDA 81.106 – The Department of Environmental Quality received U.S. Department of Energy funds from the Western Governor's Association. The Department reported expenditures of 343,204. (Grantor number MOA 30-301-0204-004 and DEFC 0490AL65416)
- L. CFDA 81.999 – The Department of Water Resources received U.S. Department of Energy funds from the National Association of State Energy Officials. The Department reported expenditures of \$795. (Grantor number DE-FC36-03G013926)
- M. CFDA 84.295 – Idaho Public Television received U.S. Department of Education funds from the Corporation of Public Broadcasting. Idaho Public Television reported expenditures of \$22,606. (Grantor number n/a)
- N. CFDA 84.304 – The Superintendent of Public Instruction received U.S. Department of Education funds from the Center for Civic Education. The Superintendent reported expenditures of \$179,928. (Grantor number CC9670, CC9550, CC9520, CC9420, CC9530, and CC9535)
- O. CFDA 93.110 – The Department of Health and Welfare received U.S. Department of Health and Human Services funds from the University of Hawaii. The Department reported expenditures of \$20,140. (Grantor number n/a)
- P. CFDA 93.145 – The Department of Health and Welfare received U.S. Department of Health and Human Services funds from the University of Washington. The Department reported expenditures of \$111,819. (Grantor number 877529/128019)
- Q. CFDA 93.307 – The Commission on Hispanic Affairs received U.S. Department of Health and Human Services funds from the Mountain States Group. The Commission reported expenditures of \$7,960. (Grantor number 82-6000952-94)
- R. CFDA 93.586 – The Judicial Department received U.S. Department of Health and Human Services funds from the American Humane Council. The Department reported expenditures of \$111,499. (Grantor number 90-CA1699-IDSC03)

NOTE #4 LOANS OUTSTANDING

State agencies administer various loan programs on behalf of federal grantor agencies. The following explains:

- A. The Department of Environmental Quality administers loans for the Capitalization Grant for the Clean Water State Revolving Fund (CFDA 66.458) and the Capitalization Grant for the Drinking Water State Revolving Fund (CFDA 66.468). These revolving funds make loans to qualified agencies for various water treatment projects. The loans are funded by the federal capitalization grant (80%) and State match (20%). The loans are disbursed as the borrower incurs costs and are repaid over 20 years. Interest rates vary between 0% and 4.5%. Management considers all loans to be fully collectible, so there is no allowance for uncollectible accounts.

Notes to Supplementary Schedules of Expenditures of Federal Awards for the Year Ended June 30, 2006

The following describes the status of these loan programs at June 30, 2006:

CAPITALIZATION GRANT FOR CLEAN WATER – CFDA 66.458

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$148,494,206	\$81,870,191	\$0	\$66,624,015
Projects in Progress	<u>79,793,720</u>	<u>837,077</u>	<u>41,332,496</u>	<u>37,624,147</u>
Totals	<u>228,287,926</u>	<u>\$82,707,268</u>	<u>\$41,332,496</u>	\$104,248,162
Less: Amount Due Within 1 Year				<u>3,360,907</u>
Loans Receivable Net of Current Maturities				<u>\$100,887,255</u>

CAPITALIZATION GRANT FOR DRINKING WATER – CFDA 66.468

	Loan Authorized	Principal Repayments	Remaining Commitment	Receivable Balance
Completed Projects	\$26,113,439	\$2,549,295	\$0	\$23,564,144
Projects in Progress	<u>36,846,365</u>	<u>1,989,000</u>	<u>23,885,004</u>	<u>10,972,361</u>
Totals	<u>\$62,959,804</u>	<u>\$4,538,295</u>	<u>\$23,885,004</u>	\$34,536,505
Less: Amount Due Within 1 Year				<u>1,015,619</u>
Loans Receivable Net of Current Maturities				<u>\$33,520,886</u>

- B. The Idaho Department of Water Resources administers loan and grant programs (CFDA 81.999) for the U.S. Department of Energy. The original source of these funds was petroleum price violations. The funds are used to finance various energy conservation projects. The outstanding principal and interest at June 30, 2006 was \$480,883. The Department of Water Resources determined that uncollectible accounts would be \$4,546.

NOTE #5 SUBRECIPIENTS

Some of the federal expenditures presented in the schedule were provided to subrecipients to administer federal programs. Some agencies are also provided State funds in addition to federal funds. The following is a schedule of State agency payments (federal and State funds) to subrecipients.

State Agency	CFDA	CFDA Title	Amount
Aging, Idaho Commission on	17.235	Senior Community Service Employment Program	\$128,300
Aging, Idaho Commission on	93.042	Long-Term Care Ombudsman Services for Older Individuals	46,703
Aging, Idaho Commission on	93.043	Disease Prevention and Health Promotion Services	58,961
Aging, Idaho Commission on	93.044	Grants for Supportive Services and Senior Centers	1,701,491
Aging, Idaho Commission on	93.045	Nutrition Services	1,865,626
Aging, Idaho Commission on	93.048	Discretionary Projects	53,650
Aging, Idaho Commission on	93.051	Alzheimer's Disease Demonstration Grants to States	192,136
Aging, Idaho Commission on	93.052	National Family Caregiver Support	492,572
Aging, Idaho Commission on	93.053	Nutrition Services Incentive Program	535,681
Arts, Commission on the	45.025	Promotion of the Arts-Partnership Agreements	247,123
Arts, Commission on the	45.026	Promotion of the Arts-Leadership Initiative	2,335
Agriculture, Department of	10.169	Specialty Crop Block Grant Program	3,328
Commerce and Labor, Department of	10.670	National Forest-Dependent Rural Communities	16,000
Commerce and Labor, Department of	10.672	Rural Development, Forestry, and Communities	54,901
Commerce and Labor, Department of	14.228	Community Development Block Grants/State's Program	8,581,482
Commerce and Labor, Department of	17.207	Employment Service/Wagner-Peyser Funded Activities	20,460
Commerce and Labor, Department of	17.258	WIA Adult Program	265,267
Commerce and Labor, Department of	17.259	WIA Youth Activities	747,105
Commerce and Labor, Department of	17.260	WIA Dislocated Workers	152,223
Commerce and Labor, Department of	93.999	Health Resources and Services Administration	5,659

State of Idaho

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

State Agency	CFDA	CFDA Title	Amount
Correction, Department of	94.006	AmeriCorps	320,123
Environmental Quality, Department of	66.419	Water Pollution Control State, Interstate, and Tribal Program Support	20,044
Environmental Quality, Department of	66.432	State Public Water System Supervision	349,760
Environmental Quality, Department of	66.460	Nonpoint Source Implementation Grants	1,705,209
Environmental Quality, Department of	66.468	Capitalization Grants for Drinking Water State Revolving Fund	183,221
Environmental Quality, Department of	66.802	Superfund State, Political Subdivision, and Indian Tribe Site	7,874
Insurance, Department of	93.779	CMS Research, Demonstrations and Evaluations	9,240
Juvenile Corrections, Department of	16.523	Juvenile Accountability Incentive Block Grants	751,587
Juvenile Corrections, Department of	16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	286,468
Juvenile Corrections, Department of	16.549	Part E State Challenge Activities	59,987
Juvenile Corrections, Department of	16.727	Enforcing Underage Drinking Laws Program	86,177
Lands, Department of	10.664	Cooperative Forestry Assistance	2,037,249
Lands, Department of	10.672	Rural Development, Forestry, and Communities	229,144
Lands, Department of	10.677	Forest Land Enhancement Program	2,875
Lands, Department of	15.228	National Fire Plan-Wildland Urban Interface Community Fire Assistance	11,867
Parks and Recreation, Department of	15.622	Sportfishing and Boating Safety Act	88,890
Parks and Recreation, Department of	15.916	Outdoor Recreation-Acquisition, Development and Planning	334,669
Parks and Recreation, Department of	20.219	Recreational Trails Program	594,380
Parks and Recreation, Department of	97.012	Boating Safety Financial Assistance	347,747
Idaho Transportation Department	20.205	Highway Planning and Construction	1,484,674
Idaho Transportation Department	20.505	Federal Transit-Metropolitan Planning Grants	364,082
Idaho Transportation Department	20.509	Formula Grants for Other Than Urbanized Areas	2,382,867
Idaho Transportation Department	20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	96,778
Idaho Transportation Department	20.600	State and Community Highway Safety	303,089
Idaho Transportation Department	20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	47,605
Idaho Transportation Department	20.604	Safety Incentive Grant for Use of Seatbelts	180,497
Health and Welfare, Department of	10.557	WIC Program	5,651,450
Health and Welfare, Department of	10.568	Emergency Food Assistance Program (Administrative Costs)	176,599
Health and Welfare, Department of	16.575	Crime Victim Assistance	1,734,539
Health and Welfare, Department of	66.032	State Indoor Radon Grants	23,074
Health and Welfare, Department of	81.042	Weatherization Assistance for Low-Income Persons	1,979,509
Health and Welfare, Department of	84.181	Special Education-Grants for Infants and Families with Disabilities	24,940
Health and Welfare, Department of	93.003	Public Health and Social Services Emergency Fund	131,273
Health and Welfare, Department of	93.048	Discretionary Projects	722
Health and Welfare, Department of	93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	160,634
Health and Welfare, Department of	93.110	Maternal and Child Health Federal Consolidated Programs	20,161
Health and Welfare, Department of	93.116	Project Grants and Coop. Agreements for Tuberculosis Control	70,332
Health and Welfare, Department of	93.127	Emergency Medical Services for Children	16,000
Health and Welfare, Department of	93.136	Injury Prevention and Control Research	73,706
Health and Welfare, Department of	93.217	Family Planning-Services	861,965
Health and Welfare, Department of	93.235	Abstinence Education Program	300,202
Health and Welfare, Department of	93.241	State Rural Hospital Flexibility Program	265,300
Health and Welfare, Department of	93.259	Rural Access to Emergency Devices Grant	80,002
Health and Welfare, Department of	93.268	Immunization Grants	732,299
Health and Welfare, Department of	93.283	Centers For Disease Control and Prevention-Investigations/Technical Assist.	5,019,195
Health and Welfare, Department of	93.301	Small Rural Hospital Improvement Grant Program	305,813
Health and Welfare, Department of	93.556	Promoting Safe and Stable Families	21,318
Health and Welfare, Department of	93.558	Temporary Assistance For Needy Families	1,638,523
Health and Welfare, Department of	93.568	Low-Income Home Energy Assistance	2,983,186
Health and Welfare, Department of	93.569	Community Services Block Grant	3,180,131
Health and Welfare, Department of	93.571	Community Services Block Grant Formula, Discretionary Awards Community Food and Nutrition Programs	12,172
Health and Welfare, Department of	93.575	Child Care and Development Block Grant	59,474
Health and Welfare, Department of	93.630	Developmental Disabilities Basic Support and Advocacy Grants	8,978
Health and Welfare, Department of	93.659	Adoption Assistance	223,046
Health and Welfare, Department of	93.667	Social Services Block Grant	939,556
Health and Welfare, Department of	93.671	Family Violence Protection and Services for Battered Women's Shelters	986,381
Health and Welfare, Department of	93.674	Chafee Foster Care Independence Program	2,951
Health and Welfare, Department of	93.778	Medical Assistance Program	134,574
Health and Welfare, Department of	93.889	National Bioterrorism Hospital Preparedness Program	2,943,171
Health and Welfare, Department of	93.913	Grants To States For Operation of Offices of Rural Health	26,705
Health and Welfare, Department of	93.917	HIV Care Formula Grants	70,016

State of Idaho

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

State Agency	CFDA	CFDA Title	Amount
Health and Welfare, Department of	93.940	HIV Prevention Activities-Health Department Based	223,816
Health and Welfare, Department of	93.944	HIV/AIDS Surveillance	28,468
Health and Welfare, Department of	93.958	Block Grants for Community Mental Health Services	131,572
Health and Welfare, Department of	93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	167,966
Health and Welfare, Department of	93.988	Diabetes Control Programs and Evaluation of Surveillance Systems	120,112
Health and Welfare, Department of	93.991	Preventive Health and Health Services Block Grant to the States	227,377
Health and Welfare, Department of	93.994	Maternal and Child Health Services Block Grant to the States	1,285,997
Historical Society, Idaho State	10.672	Rural Development, Forestry, and Communities	9,500
Historical Society, Idaho State	14.246	CCBG/Brownfields Economic Development Initiative	3,286
Historical Society, Idaho State	15.904	Historic Preservation Fund Grants-in-Aid	45,689
Idaho State Police	16.554	National Criminal History Improvement Program	49,224
Idaho State Police	16.579	Edward Byrne Memorial Formula Grant Program	1,305,864
Idaho State Police	16.588	Violence Against Women Formula Grants	670,572
Idaho State Police	16.609	Community Prosecution and Project Safe Neighborhoods	195,334
Idaho State Police	16.738	Edward Byrne Memorial Justice Assistance Grant Program	133,348
Military, Division of	97.004	State Domestic Preparedness Equipment Support Program	15,183,665
Military, Division of	97.017	Pre-Disaster Mitigation Competitive Grants	25,818
Military, Division of	97.029	Flood Mitigation Assistance	129,579
Military, Division of	97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	412,609
Military, Division of	97.067	Homeland Security Grant Program	442,243
Education, State Board of	84.069	Leveraging Educational Assistance Partnership	20,761
Education, State Board of	84.185	Byrd Honors Scholarships	147,250
Education, State Board of	84.365	English Language Acquisition Grants	1,525,919
Professional-Technical Educ., Div. of	84.048	Vocational Educ.-Basic Grants to States	4,426,343
		Tech-Prep Education	
Professional-Technical Educ., Div. of	84.243		113,471
Professional-Technical Educ., Div. of	97.019	National Fire Academy Educational Program	354
Secretary of State	39.999	Election Reform	19,519
Secretary of State	93.617	Voting Access for Individuals with Disabilities-Grants to States	88,437
Library, Idaho State	45.310	Grants to States	151,476
Superintendent of Public Instruction	10.550	Food Donation	2,539,941
Superintendent of Public Instruction	10.553	School Breakfast Program	10,000,559
Superintendent of Public Instruction	10.555	National School Lunch Program	33,853,206
Superintendent of Public Instruction	10.556	Special Milk Program for Children	198,700
Superintendent of Public Instruction	10.558	Child and Adult Care Food Program	4,885,760
Superintendent of Public Instruction	10.559	Summer Food Service Program for Children	2,358,472
Superintendent of Public Instruction	10.574	Team Nutrition Grants	27,500
Superintendent of Public Instruction	10.579	Child Nutrition Discretionary Grants Limited Availability	164,963
Superintendent of Public Instruction	15.130	Indian Education Assistance to Schools	41,067
Superintendent of Public Instruction	84.002	Adult Education-State Grant Program	331,397
Superintendent of Public Instruction	84.010	Title I Grants to Local Educational Agencies	42,210,145
Superintendent of Public Instruction	84.011	Migrant Education-State Grant Program	4,040,776
Superintendent of Public Instruction	84.027	Special Education-Grants to States	47,005,675
Superintendent of Public Instruction	84.173	Special Education-Preschool Grants	2,308,467
Superintendent of Public Instruction	84.184	Safe and Drug-Free Schools and Communities-National Program	6,218
Superintendent of Public Instruction	84.186	Safe and Drug-Free Schools and Communities-State Grants	2,233,660
Superintendent of Public Instruction	84.196	Education for Homeless Children and Youth	204,216
Superintendent of Public Instruction	84.213	Even Start-State Educational Agencies	546,741
Superintendent of Public Instruction	84.215	Fund for the Improvement of Education	447,303
Superintendent of Public Instruction	84.282	Charter Schools	2,374,269
Superintendent of Public Instruction	84.287	Twenty-First Century Community Learning Centers	3,660,056
Superintendent of Public Instruction	84.298	State Grants for Innovative Programs	1,003,021
Superintendent of Public Instruction	84.318	Education Technology State Grants	2,207,839
Superintendent of Public Instruction	84.332	Comprehensive School Reform Demonstration	1,365,368
Superintendent of Public Instruction	84.357	Reading First State Grants	2,556,832
Superintendent of Public Instruction	84.358	Rural Educ.	141,514
Superintendent of Public Instruction	84.367	Improving Teacher Quality State Grants	13,120,687
Superintendent of Public Instruction	93.576	Refugee and Entrant Assistance-Discretionary Grants	29,125
Superintendent of Public Instruction	93.938	Comprehensive School Health Programs to Prevent the Spread of HIV	20,000
Superintendent of Public Instruction	94.004	Learn and Serve America-School and Community Based Programs	57,916

**Notes to Supplementary Schedules of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

<u>State Agency</u>	<u>CFDA</u>	<u>CFDA Title</u>	<u>Amount</u>
Vocational Rehabilitation, Division of	84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	64,929
Vocational Rehabilitation, Division of	84.169	Independent Living-State Grants	198,190
Vocational Rehabilitation, Division of	96.008	Social Security-Work Incentives Planning and Assistance Program	61,962
Total			<u><u>\$265,867,052</u></u>

NOTE #6 REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal year 2006:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Children's Insurance Program (CHIP)	93.767	\$629,798
Medical Assistance Program	93.778	44,268,282
Supplemental Food for Women, Infants and Children (WIC)	10.557	6,880,904

Manufacturers paid rebates for infant formula (WIC) and prescription drugs (Medical Assistance and CHIP) that had been purchased by program participants. The rebates reduce previously incurred program costs.

**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

AUDITOR'S RESULTS



**STATE OF IDAHO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

AUDITOR'S RESULTS

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**STATE OF IDAHO
SINGLE AUDIT REPORT
SUMMARY OF AUDITOR'S RESULTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

BASIC FINANCIAL STATEMENTS

1. The independent auditor's report on the basic financial statements expressed an unqualified opinion.
2. The audit of the basic financial statements disclosed reportable internal control weaknesses that are not considered material to the financial statements.
3. The audit of the basic financial statements disclosed reportable instances of noncompliance that are not considered material to the financial statements.

FEDERAL AWARDS

1. The audit of federal major programs in the Schedule of Expenditures of Federal Awards disclosed internal control weaknesses. None of the internal control weaknesses are considered material.
2. The independent auditor's report on compliance with federal major programs expressed an unqualified opinion.
3. The *Single Audit Report* disclosed findings that are required to be reported in accordance with the criteria in Section 510a of *OMB Circular A-133*.
4. The federal programs identified as major programs are listed on the following page.
5. The dollar threshold used to distinguish between Type A and Type B programs was \$5,772,501.
6. For the fiscal year ended June 30, 2006, the State of Idaho did not meet the *OMB Circular A-133's* requirements to qualify as a low-risk auditee.

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF FEDERAL MAJOR PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

PROGRAM OR CLUSTER TITLE	CFDA
FISH AND WILDLIFE CLUSTER:	
Sport Fish Restoration	15.605
Wildlife Restoration	15.611
EMPLOYMENT SERVICES CLUSTER:	
Employment Services/Wagner-Peyser Funded Activities	17.207
Disabled Veterans Outreach Program	17.801
Local Veterans Employment Representative Program	17.804
WORKFORCE INVESTMENT ACT CLUSTER:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
CHILD CARE CLUSTER:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Grant	93.596
MEDICAID CLUSTER:	
State Survey and Certification of Health Care Providers	93.777
Medical Assistance Program	93.778
HOMELAND SECURITY CLUSTER:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant	97.067
NON-CLUSTERED MAJOR PROGRAMS:	
Cooperative Forest Assistance	10.664
National Guard Operations and Maintenance	12.401
Community Development Block Grant	14.228
Unemployment Insurance	17.225
Capitalization Grants for Clean Water State Revolving Fund	66.458
Capitalization Grants for Drinking Water State Revolving Fund	66.468
Miscellaneous Bonneville Power Grant	81.999
Vocational Education Basic Grant	84.048
Access to Recovery	93.275
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Social Services Block Grant	93.667
State Children's Insurance Program	93.767
Substance Abuse Block Grant	93.959
Social Security - Disability Insurance	96.001

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Department Federal Program	State Agency	CFDA Number	Questioned Costs	Finding Reference
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HEALTH AND HUMAN SERVICES, DEPARTMENT OF

Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	06F-1
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	06F-2
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	06F-3
Child Support Enforcement	Health and Welfare, Department of	93.563	\$499,000	06F-4
Temporary Aid to Needy Families (TANF)	Health and Welfare, Department of	93.558	N/D	06F-5
Temporary Aid to Needy Families (TANF)	Health and Welfare, Department of	93.558	4,590,000	06F-6
Child Care and Development Block Grant	Health and Welfare, Department of	93.575	N/D	06F-7
Medical Assistance Program	Health and Welfare, Department of	93.778	<u>145,000</u>	06F-8

Total Questioned Costs			<u><u>\$5,234,000</u></u>	
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N/D = The amount of questioned costs for this finding is not easily determinable.

**STATE OF IDAHO
SINGLE AUDIT REPORT
FEDERAL FINDINGS AND QUESTIONED COSTS
FISCAL YEAR 2006**

HEALTH AND WELFARE, DEPARTMENT OF

FINDING 06F-1

CFDA Title: Medicaid

CFDA #: 93.778

Federal Award #: 05-0505ID5028

Program Year: October 1, 2004 to
September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: N – Special Tests

Questioned Costs: Not determinable

The Medicaid program has not coordinated the efforts to recover benefit costs through the child support program as required. Federal regulation (42 CFR 433.151) requires the State Medicaid program to establish an agreement with the State child support program to coordinate the recovery of benefit costs from non-custodial parents and other third parties. The Medicaid program is required to pay the administrative expenses that are not otherwise allowable under the federal Child Support Grant and to pay an incentive to the State program equal to 15% of the amounts recovered. This incentive amount is paid entirely from the federal share of the recoveries.

The State Medicaid Plan indicates that the required agreement exists with the child support program, but a copy of this document could not be located by the Department. In addition, we found no evidence that the Medicaid program had ever paid the child support program for expenses to recover benefit costs or the 15% incentive of the amounts recovered.

The child support program has actively pursued the recovery of Medicaid birth costs over the past three years, as a result of prior audit recommendations. During this period, the child support program has recovered the following amounts:

FY 04	\$2,585,492
FY 05	2,448,225
FY 06	1,570,510

Collections have declined during the past year due to instructions from the federal child support grantor that the administrative expenses to recover Medicaid benefit costs are unallowable. Therefore, the child support program discontinued its efforts to recover these amounts due to a lack of funding, not knowing that the expenses for these efforts were reimbursable from the Medicaid program. The incentive payment could also have provided nearly \$1 million over the past three years in additional funds to enhance the child support program's efforts.

RECOMMENDATION 06F-1

We recommend that the Department establish a new cooperative agreement between the Medicaid and the child support programs that meets the requirements of federal regulations. We also recommend that the Department investigate whether prior period costs for services and incentives are recoverable from the Medicaid program by the child support program.

CORRECTIVE ACTION PLAN

The cooperative agreement between Medicaid and Child Support has been drafted and is currently being reviewed by Medicaid to ensure it meets the requirements of federal regulation. The Child Support Program is investigating whether prior period costs for Medicaid services and incentives can be recovered from the Medicaid Program.

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

FINDING 06F-2

CFDA Title: Medicaid

CFDA #: 93.778

Federal Award #: 05-0505ID5028

Program Year: October 1, 2004 to

September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: E – Eligibility

Questioned Costs: Not determinable

Medicaid eligibility for newborn children is mistakenly ended early or not established at all. The State is required by federal regulation to develop Medicaid eligibility criteria and incorporate the criteria into the State Plan. The criteria for a child born to a poverty level woman is further defined in administrative rule (IDAPA 16.03.01.601), and requires that the child remain Medicaid eligible for one year from date of birth. Other than a loss of residency, all other eligibility criteria for a newborn child are not applied until the annual renewal is completed.

We included a random sample of 68 (from a total of nearly 10,000) newborn children in our test for eligibility paid for by Medicaid during calendar 2005. Our tests showed that eligibility was ended early, in error, for 7 newborn children (10%), and 3 others (4%) did not have eligibility established at all. The most common reason for ending eligibility was "failure to complete redetermination." However, such action is not required for newborn children through their first 12 months. The reasons for failing to establish eligibility were not clear. However, the complexity of the processes and control weaknesses inherent in the Eligibility Program Information Computer System (EPICS) are contributing factors.

The Department uses ad-hoc reports from EPICS to address a variety of issues, including newborn children whose eligibility has mistakenly ended early. These reports are either not produced or worked each month, and efforts to identify newborn children who are not made eligible has not been fully developed.

Based on the results of our sample, we estimate that more than 1,500 newborn children had their eligibility ended early or not established at all during calendar 2005. This situation is contrary to the State Plan and creates a situation whereby vulnerable newborn children are denied access to medical care.

RECOMMENDATION 06F-2

We recommend that the Department establish procedures to ensure all children born to poverty level women remain eligible for one year from date of birth as required by the State Plan. These procedures should include creating and working ad-hoc reports each month that identify newborn children whose eligibility has ended early and those whose eligibility was not properly established. We also recommend that the Department provide staff with additional training to reduce errors in establishing and maintaining newborn eligibility.

CORRECTIVE ACTION PLAN

The problem of early closure of children under one year of age who were born to a Medicaid qualifying mother is created by a number of factors. However, there are some situations where a child under one year of age does not have automatic eligibility for one year, for example:

1. If the mother was not on Medicaid at the time of the birth.
2. If the household requests closure.
3. If the household leaves the state.
4. If the child is adopted.

The issue of children not being added to the Medicaid case at all is very difficult to address. The Division adds a child to a case as soon as it is reported by the parent or by a hospital or doctor. Many times the birth of a child is not reported until medical bills are denied, the family has another change, an eligibility

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

redetermination occurs, or it is not reported at all. An alert is generated in the automated system that tells a worker when a child is more than two months past due.

To address early closure of Medicaid for children who should remain eligible continuously for one year the Division has:

1. Consolidated all Family Medicaid Maintenance into one statewide unit. This group works only Family Medicaid related cases and has specific training in this area.
2. A regular monthly report of all children under one year of age who were closed is generated to field managers who have workers validate the closure and report back to the manager.
3. A workload management report is generated to field workers of Family Medicaid cases that have a child under one year of age at the time an eligibility redetermination is due. Family Medicaid staff can use this report to target these cases to ensure the manual actions required to keep the child open are taken.
4. The Family Medicaid Consolidated Units have procedures in place to add newborns to Medicaid cases. An agreement was established with the hospitals to act on information received directly from the hospitals within two business days. This process has improved the accuracy and assurance of newborns added to the Medicaid cases timely.

The Division of Welfare believes we have taken acceptable action to avoid the early closure of children under one year of age who are automatically entitled to a full year of coverage. We will also monitor this corrective action plan through our quality assurance processes to ensure that the steps outlined in this plan lead to improvements in erroneous closures on children less than one year of age.

FINDING 06F-3

CFDA Title: Medicaid

CFDA #: 93.778

Federal Award #: 05-0505ID5028

Program Year: October 1, 2004 to
September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: E – Eligibility

Questioned Costs: Not determinable

Medicaid eligibility data in EPICS is still not reconciled to the Medicaid Automated Information System (AIM). We recommended in the fiscal year 2003 and 2005 audits that the Department establish a reconciliation process between EPICS and the AIM payment system to ensure client eligibility was properly recorded and provider claims were promptly paid. This reconciliation process has not been fully developed, and the ongoing enhancements to the EPICS system are creating new variations and errors in client eligibility that are not actively identified or corrected.

The Department received additional funding in fiscal year 2007 to begin the process of replacing EPICS. This system has worked well over the years at processing and storing data, but was originally developed during the early 1980s and has been extensively modified over the past 25 years. The core software and system processes do not integrate well with current technology, and many other factors limit its overall functionality. In addition, staff training and quality control programs have been reduced or eliminated over the years. It is these conditions that create the opportunity for errors and the basis for seeking to enhance and replace the EPICS system.

We analyzed a small sample of 173 clients eligible in the EPICS system for June 2006, that did not have eligibility in the AIM system. We determined that 69 of these clients had an error in their EPICS record that delayed or prevented the record from being added to the AIM system.

Without a record in AIM, clients do not receive a Medicaid card with access to services, and providers cannot receive payment for services.

Although our analysis was not statistically based, the quantity of errors indicates serious weaknesses in the processes and controls that ensure eligibility data is properly recorded. Hundreds of cases per month are corrected manually by the EPICS help desk employees who receive questions and complaints from regional caseworkers and others. However, there are no procedures in place to actively identify and correct errors in EPICS until a question or complaint is filed.

Efforts have not been taken to reconcile the eligibility data in the EPICS and AIM systems because the process is very labor intensive, and resources are directed toward other issues. The ongoing enhancements to the EPICS system are adding to the complexity, and no interim procedures exist to ensure the accuracy and integrity of the eligibility records. As a result, clients are not provided benefits promptly or at all, while providers who render services to clients cannot be paid until the AIM record is created.

RECOMMENDATION 06F-3

We recommend that the Department establish interim procedures to identify and correct errors in the automated records that cause client eligibility to be delayed or not established at all. These procedures should include actively identifying cases each month with characteristics known to cause eligibility errors and methods for documenting the changes made to the client record.

New issues will likely arise as the EPICS system enhancements continue, and these interim procedures should expand to minimize any future detrimental effect to clients and providers until all enhancements are fully operational.

CORRECTIVE ACTION PLAN

Upon reviewing the sample of cases reviewed by the auditor, we feel that the errors and issues identified either have been or will be addressed in the near future.

Problems related to the PW programming in EPICS will be eliminated. With Medicaid modernization, which was implemented in July 2006, the Division made programming and policy changes which eliminates this code in EPICS for children. Once all the cases are modernized to the new programming (anticipated for July 2007), we will significantly reduce many of the reconciliation issues between the EPICS and AIM system that are tied to this program code.

Related to instances of overlap in benefits, it is important to note that overlapping benefits is appropriate when you take someone from a restricted coverage group to a non-restrictive coverage group. Upon evaluation of the overlapping benefits identified through the audit, more than half of the cases cited actually had appropriate overlap because the individuals were moving to better coverage.

Other issues with clients being approved in EPICS but not passed correctly to AIM will be greatly reduced by consolidation of family related Medicaid into one unit for all maintenance. The staff in this unit manages only Medicaid cases. Specialization of the work will result in more correct entry of Medicaid information into the automated system.

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

Finally, we have put processes in place to begin addressing those items that may still cause issues. We have implemented a process to immediately identify issues through the EDS system and send those issues to our EPICS Help Desk to be resolved. The EPICS Help Desk and the Division of Medicaid work to resolve those issues immediately. Other issues, which are primarily caused through keying errors and not system errors, will be identified through the Reconciliation Report which is expected to be implemented in May 2007. This report will identify all other reconciliation issues and provide an opportunity for the EPICS Help Desk and the Division of Medicaid to resolve any other outstanding or unidentified issues. The procedure to work the reconciliation report will include the EPICS Help desk actively identifying cases each month with characteristics known to cause eligibility errors and correcting errors appropriately where necessary.

FINDING 06F-4

CFDA Title: Child Support Enforcement

CFDA #: 93.563

Federal Award #: G0504ID4004

Program Year: October 1, 2004 to
September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: B – Allowable Costs

Questioned Costs: \$499,000

Nearly \$756,000 from the Child Support Grant was erroneously expended for services to ineligible clients. Federal regulation (45 CFR 302.33) requires the Department to provide services to clients who are either required to cooperate with the child support program as a condition of receiving assistance, or who applied for services and paid an application fee of \$25. In 1998, new federal requirements were established (42 USC 654b) that require each state to operate a centralized receipting and disbursement unit. Costs for operating this unit are allowable to the grant, but only for those clients who meet eligibility requirements. Costs associated with providing services to clients who are not required to cooperate, or have not applied and paid a fee, are unallowable to the federal grant.

Cases where clients do not meet eligibility requirements are identified as "receipting services only," or RSO cases. The number of RSO cases identified by the Department as of June 2006, was 20,122 of the nearly 131,000 total cases in the ICSES automated child support management system. The Department identifies the cost of services to RSO cases based on a proportionate share of the automated case management system, receipting services contract, and related costs. The total cost for services to RSO cases during fiscal year 2006 was \$1,154,000.

The Department transferred about \$398,000 of these costs to the Temporary Assistance to Needy Families (TANF) federal grant, which we identified as unallowable to that grant in Finding 06F-5. The remaining \$756,000 was paid from the federal Child Support Grant, in error.

These cost errors were due partly to changes in staff and a misunderstanding of the requirements to exclude these costs from the federal grant. Our review indicates that the practice of claiming these costs to the federal grant has been in effect for at least the last three years.

RECOMMENDATION 06F-4

We recommend that the Department exclude costs from the federal grant for child support cases where the client is not eligible for services. We also recommend that the Department resolve the fiscal year 2006 questioned costs with the federal grantor, and determine if adjustments for prior year claims that included these costs are required.

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

CORRECTIVE ACTION PLAN

The Department does not agree with this finding. We are following federal guidance from Audit recommendation #001009100 stating "TANF funds may be used for processing child support payments when the cases do not qualify for funding under the Child Support Enforcement program. Cases where the support order is on or after January 1, 1994, and the payment is made by wage withholding are eligible for funding by the Child Support Enforcement program. Older cases or cases where payment is not made by wage withholding may be charged to TANF." The Department also received guidance from ACF on 12/7/2000 stating TANF funds for processing and distribution can apply to court orders issued prior to 1994.

FINDING 06F-5

CFDA Title: Temporary Assistance to Needy Families (TANF)

CFDA #: 93.558

Federal Award #: G0501IDTANF

Program Year: October 1, 2004 to
September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: E – Eligibility

Questioned Costs: Not determinable

Documents were not available to support TANF eligibility in 60% of cases tested. Federal regulation (45 CFR 263.2(b)) and Department rules (IDAPA 16.03.08) require the Department to obtain documents to support eligibility determination for cash assistance under the TANF program. These documents include a birth certificate, social security card, a personal responsibility contract, immunization record, and school attendance record if applicable.

During fiscal year 2006, the Department provided \$3.7 million in TANF cash assistance to nearly 8,500 clients. We randomly selected 30 clients to test eligibility, and identified 18 (60%) where one or more required documents were missing from the case file. Most case files were missing two or more documents, with one file missing all five required documents.

There are financial penalties established in the Department's rules for families who fail to provide documents. For example, school attendance records are required for all children in the household, and a \$50 penalty per month, per child, will be subtracted from the cash assistance if a child does not attend school. The lack of school records would indicate that penalties could be assessed; however, none of the nine cases in our sample that were missing these documents were penalized.

Our review indicated that some of the Department's regional offices use a standardized checklist to assist staff in identifying the required documents. Most of the errors were in regions where the checklist was not used, and this appears to be the common factor as the cause for missing documents.

RECOMMENDATION 06F-5

We recommend that the Department review all TANF cases, and obtain any missing documentation to reassess whether eligibility and benefit amounts were properly determined. We also recommend that the Department develop a checklist to be used by all regional offices to ensure that all supporting documents are obtained before benefits are issued.

CORRECTIVE ACTION PLAN

TANF Legislative Findings. There were 30 cases reviewed statewide by the Legislative Auditor. Of those 30 cases, 18 cases were identified as having errors in categories: lack of school attendance records, lack of immunization records, lack of birth certificates, lack of SS cards, no PRC in file. In those 18 cases some cases had multiple findings. Listed below are findings and responses. Findings were based on a combination of TAFI rule, TAFI policy and keying in EPICS.

Lacks School Attendance Records (9 cited findings). RESPONSE: There is no requirement in rule or policy that indicates school attendance records must be in the file. It is Department policy to verify school attendance when questionable and if the child is 16 years or older. All of the cases that were identified for lack of school attendance were under 16 years of age. The Department does not see this as an issue.

Lacks Immunization Records (12 cited findings). RESPONSE: There is no requirement in rule or policy indicating immunization records must be in the file or updated in the file. Re-documentation of immunization for school aged children is not necessary for TAFI purposes. Workers note the age of the child and determine if they are school age or not. The Department considers immunization for school age children verified by public school attendance. If a child is attending public schools, the child is required to provide immunization records to attend public schools; therefore, the Department does not require the family to re-verify this information. For pre-school age children we review their immunization records and accept them as complete, even when they may be behind the immunization schedule. Many children get behind and may never get caught up with the actual schedule for their age. Currently the approval of TAFI eligibility will not process without the immunization indicator keyed on the CLRE screen. The Department does not see this as an issue.

Lacks Birth Certificates (9 cited findings). RESPONSE: TAFI eligibility requires relationship verification on adult applicants only and in caretaker grant cases between the caretaker and the child. The source of verification may be through the system or third party and is usually narrated. Birth certificates are not mandatory TAFI relationship verification. There is neither rule nor policy that states that a "Birth Certificate" must be in the file.

No PRC in File (5 cited findings). RESPONSE: The Department contracts the TAFI case management for work eligible individuals with the EWS contractor. The contractor's files contain the PRC. These files are monitored by the Department CERM Team quarterly. Upon assessment of the reviews done by the auditor, it was validated that all files reviewed had a completed PRC in the file. The only PRC's that would be kept in a State file would be Ineligible Alien files. The five files cited in error were all work eligible individuals and were referred to the contractors for case management.

Lacks SS Cards (10 cited findings). RESPONSE: The Department verifies SSN through State On Line Query (SOLQ) which is an interface with Social Security Administration. If the SSN given to the Department by the applicant clears (numidents) with Social Security Administration, the SSN is assumed to be valid and the system automatically enters an "N" on the EPICS CLRE screen. If the SSN is not cleared, an error message is received and the case will not process. The SSN is validated through interfaces and there is no requirement for documentation in the case file; in fact, it is against SSA policy that the screen prints from the SOLQ are in the case record. Due to current processes and verification standards in place, the Department does not feel this is an issue.

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

FINDING 06F-6

CFDA Title: Temporary Assistance to Needy Families (TANF)

CFDA #: 93.558

Federal Award #: G0501IDTANF

Program Year: October 1, 2004 to September 30, 2005

Federal Agency: Department of Health and Human Services

Compliance Requirement: B – Allowable Costs

Questioned Costs: \$4,590,000

TANF funds were used for Head Start, child support receipting, and other unallowable activities. Activities funded by the Temporary Assistance to Needy Families (TANF) program must meet one of four broad objectives established in federal regulations (45 CFR 260.20). These objectives include providing assistance to needy families so that children can be cared for in their own home, promoting job preparation and marriage, reducing out-of-wedlock pregnancies, and encouraging the formation and maintenance of two-parent families.

The Department uses TANF funds to provide a variety of activities and services, some of which do not meet TANF objectives. For example, during fiscal year 2006, the following activities were paid with TANF funds:

1. \$1,081,000 – Immunization Registry Information System (IRIS)
2. \$100,000 – Poison control center hotline
3. \$1,535,000 – Head Start for educational activities
4. \$398,000 – Child support receipt processing costs
5. \$1,476,000 – Governor's Coordinating Council for Families and Children for Suicide Prevention, Brightest Stars, and other activities

The federal grantor reviewed Idaho's TANF State Plan for fiscal year 2007, and has required that amounts allocated for the poison control hotline and immunization registry be removed because they do not meet TANF objectives. Our analysis showed a similar disconnect for the other listed activities. Educating preschool children, processing child support receipts, and preventing suicide, as well as several other costs within the Governor's Coordinating Council are not objectives of the TANF program and are unallowable to the grant.

If a state misuses TANF funds, the federal grantor can reduce the grant award by the amount misused, plus an additional 5% of the quarterly grant award, if the misuse is determined to be intentional (45 CFR 263.10).

RECOMMENDATION 06F-6

We recommend that the Department evaluate all programs funded by the TANF grant to ensure that funds are used only for activities that specifically meet the federal objectives. We also recommend that the Department resolve the questioned cost amount with the federal grantor.

CORRECTIVE ACTION PLAN

FACS staff and Division of Welfare staff worked with Gayle Jost from the Regional TANF Office to evaluate use of TANF funds. The evaluation has been completed with Federal Partners and the results of that evaluation based on the review areas are described below:

Immunization and Poison Control. The funding of these programs has been reported in all past TANF Plans. At no time did the Federal ACF Federal Partners indicate that these expenditures were inappropriate. With the submission of the TANF Plan in 2006, we were told by ACF that we could not use TANF funds for the Immunization Registry and Poison Control. As a result, those programs were removed from the plan submitted in 2006 and are no longer funded with TANF funds as of June 2006.

Head Start. Head Start is considered to be a legitimate use of TANF funds according to a discussion held with Region X TANF Federal Partners. Head start meets purpose 4, encouraging the formation of two-parent families and purpose 2, ending dependence of needy families on government benefits by promotion of job preparation, work and marriage. Head Start does not just provide educational services to children; it provides parenting, conflict resolution, and self-sufficiency services to the parents of children enrolled in the Head Start program.

Child Support Receipting Costs. Child Support Non-IV-D costs charged to TANF are legitimate. In 2000 a similar audit finding was answered by Region X staff in an e-mail dated December 2000.

"Audit Resolution: TANF funds may be used for processing child support payments when the cases do not qualify for funding under the Child Support Enforcement program. Cases where the support order is on or after January 1, 1994, and the payment is made by wage withholding are eligible for funding by the Child Support Enforcement program. Older cases or cases where payment is not made by wage withholding may be charged to TANF. Based on the documentation you have provided, we accept your assurances that cases eligible for funding by the Child Support Enforcement program have been removed from TANF funding."

Also in that e-mail, the use of TANF funds for processing child support payments for Non-IV-D cases is appropriate per TANF funding guide page 12, item D, second paragraph, which reads: "some activities that are reasonably calculated to accomplish this purpose might include activities to promote parental access and visitation...." Given that the processing and distribution of child support payments can be reasonably considered to support parental access and the maintenance of parental involvement with their children, the State's argument about meeting the goal of purpose 4 is valid.

Governor's Coordinating Council for Families and Children for Suicide Prevention, Brightest Stars, and Other Activities. The Governor's Coordinating Council has supported the following activities which they believe will assist families and children and ensure self sufficiency:

1. The Early Care and Learning Initiative to focus on early care and learning across the State.
2. Parents as Teachers (PAT) program for early childhood parent education that serves families throughout pregnancy until their child enters kindergarten. PAT provides the information, support and encouragement parents need to help their children develop optimally during the crucial early years of life.
3. The GOC has been involved in a variety of programs in the areas of substance abuse prevention, including projects focused on underage drinking.
4. The GOC has supported the GCCFC task force on mental health and funded Red Flags suicide prevention training in schools and communities.
5. Community Collaboration Contracts (CCC) are awarded to community organizations through an annual competitive application process. Funding is awarded to projects demonstrating collaboration with a minimum of three non-profit, private, or public sector organizations working on a community project that will serve families and children.
6. The Governor's Roundtable Conferences provide annual training and capacity building.

**Federal Findings and Questioned Costs
For Fiscal Year 2006**

FINDING 06F-7

CFDA Title: Child Care and Development
Block Grant

CFDA #: 93.575

Federal Award Number: G0401IDCCDF

Program Year: October 1, 2003 to
April 30, 2006

Federal Agency: Department of Health
and Human Services

Compliance Requirement: E – Eligibility
Questioned Costs: Not determinable

Client eligibility requirements for child care assistance is not properly documented. Federal regulation (45 CFR 98.20) and administrative rules (IDAPA 16.06.12) require the Department to obtain specific documents to support client eligibility for assistance under the Child Care and Development Block Grant program. These documents include a signed application declaring citizenship, proof of wages or verification of educational activities, a utility bill to prove residency, and a birth certificate or social security card if the age of the child or citizenship appears questionable. A record of the child's immunizations is also required.

During fiscal year 2006, the Department provided \$31.2 million in direct child care assistance to 9,100 clients. We randomly selected 32 client files, representing 71 children, to determine whether eligibility for child care assistance was properly determined and documented. The results of our tests were as follows:

Citizenship was not indicated or documented. The signed application form did not indicate that the child was a citizen in eight of 32 files reviewed (25%). No other evidence, such as a birth certificate, social security card, or other data was in the files to document citizenship for each child for whom benefits were provided. The reason for the incomplete application and missing documents is unclear, but the use of a checklist and improved supervisory review are possible remedies to this situation.

Progress reports were missing. Clients who receive child care assistance for educational or training programs must provide verification of "satisfactory progress" in order to remain eligible for assistance. Two of the 32 client files we selected were involved in training programs, but neither one contained progress reports as required.

Immunization records were incomplete or missing. Federal regulation (45 CFR 98.41(a)) requires that children who receive benefits are properly immunized for their age, in accordance with the State's schedule of immunizations. Our review showed that 21 of 71 children (30%) did not have an immunization record, and 10 of the remaining 50 children (20%) had an immunization record that was not complete when compared with the State's schedule. The missing records related primarily to school-age children who likely had appropriate immunizations, but no evidence was in the files to support this. An annual review of immunization records is required, but these instances were apparently not discovered. The use of a checklist and improved supervisory review of these documents would also likely remedy this situation..

Exclusion of foster family income was not documented. Administrative rule (16.06.12.202) allows the Department to exclude the income of foster families who apply for child care assistance on a case-by-case basis. Two of the 32 files we selected involved assistance to foster families, but neither one considered or documented the income of the foster parents or indicated why the amounts were excluded. Our sample of these types of cases was too small to draw specific conclusions. However, no guidance is provided to caseworkers on the issues to

consider or the documentation required for excluding foster family income.

RECOMMENDATION 06F-7

We recommend that the Department obtain appropriate documentation of eligibility for all clients receiving child care assistance. A checklist for staff should be considered to ensure all requirements are met, with additional training and supervisory reviews when cases are established and eligibility is redetermined.

CORRECTIVE ACTION PLAN

Citizenship Was Not Indicated or Documented. ICCP does not require that an ICCP recipient be a U.S. citizen. The recipient must be legally in the country or the child for whom the ICCP is being obtained must be a citizen. EPICS system information, Vital Statistics, and Social Security Administration interfaces are used to verify citizenship status for ICCP applicants. Federal programs such as Food Stamps and Medicaid have stringent federal citizenship requirements. The EPICS system information provides much of the necessary information to verify citizenship when the family is receiving Food Stamps and Medicaid. Therefore, when an ICCP applicant is receiving Food Stamp or Medicaid benefits, citizenship has been verified and rather than having the client re-verify the information for ICCP benefits, the Department uses the information recorded in EPICS as proof of citizenship. Vital Statistics provides information on when and where a child was born. ICCP has access to this interface and uses this information when appropriate. Numident (or verified social security numbers) can be obtained through the State On-Line Query system (SOLQ) with the Social Security Administration which provides verification that the applicant is legally in the United States. It would be redundant to require all identity verifications again. In all cases reviewed system documentation exists in other Department programs that indicate citizenship is not an issue.

Progress Reports Were Missing. Four years ago, it was discovered that students who did not have satisfactory progress after one semester would not continue to receive financial aid. Students who receive ICCP have low enough incomes to receive financial aid. The continuance of financial aid provides verification of "satisfactory progress."

We are working to clarify the ICCP rules regarding evidence of satisfactory progress through proposed rule changes. Neither of these rule changes were approved by the legislature during the 2007 Legislative Session, but work is in progress to modify these rules and re-submit for approval.

Immunization Records Were Incomplete or Missing. Idaho considers immunization for school age children verified by public school attendance. If a child is attending public schools, the child is required to provide immunization records to attend public schools; therefore, Idaho does not require the family to re-verify this information with the State.

For pre-school age children we accept immunization records as complete, even when they may be behind the State schedule. Many children get behind on their immunizations and are never able to get caught up with the actual schedule for their age. According to our rules, child care payments can continue during a reasonable period necessary to comply with immunization standards.

In assessing the reviews completed by the auditor, eleven cases did not require immunization records on file because of the child's age or participation in the TAFI program. Nine records were incomplete, and we allowed them to remain on ICCP even though they were behind the State's schedule. Twelve cases were missing immunization records for one or more children.

Federal Findings and Questioned Costs
For Fiscal Year 2006

Exclusion of Foster Family Income Not Documented. ICCP rule does not require that the reason for excluding income must be documented in the file. Finding and retaining qualified foster parents is a major priority for the Department of Health and Welfare, and therefore we try to minimize the impact of foster parenting as much as possible. We do look at excluding foster parent income on a case by case basis, but upon review of the two cases reviewed by the auditor, we found the income was properly excluded. The Division of Welfare does not want to be too specific in rule in creating parameters around when to exclude foster parent income, as we want to continue to assess this on a case by case basis.

Good, efficient customer service and case management is a goal of the Division of Welfare. Eliminating redundancies in eligibility determination is one way of achieving this goal. The Division will continue to identify interfaces, development and use of electronic case files, and standards for verification that will allow individuals to apply for services without having to produce actual paper documentation that we already have access to. With that said, there are some measures the Division will implement to ensure that the reason for making the case determination is clear. These measures include improve narration standards so that it is clear in the narrative what interfaces and sources have been used to establish citizenship status and immunization schedule.

The Division of Welfare is also modifying two ICCP rule proposals. Legislative approval and administrative implementation of these rule changes will eliminate some problems around foster care eligibility and evidence of "satisfactory progress."

FINDING 06F-8

CFDA Title: Medicaid

CFDA #: 93.778

Federal Award #: 05-0505ID5028

Program Year: October 1, 2004 to
September 30, 2005

Federal Agency: Department of Health and
Human Services

Compliance Requirement: C – Cash
Management

Questioned Costs: \$145,000

Federal funds were drawn early, in error. Each year the State of Idaho agrees to a variety of methods for drawing federal funds, as required by the federal Cash Management Improvement Act (CMIA). The objective of these methods is to minimize the time elapsing between the transfer of funds from the federal grantors and the actual disbursement of funds by the State.

The Department did not follow the agreed upon methods for drawing federal funds for several grant programs, the largest of which was the Medicaid program.

The method for drawing Medicaid federal funds is based on the timing of when amounts disbursed are actually redeemed by the State Treasurer's Office, identified as a "clearance pattern." The clearance pattern used by the Department for fiscal year 2006 was the "draft" pattern, and not the final version in the formal CMIA agreement. The difference between the draft and final version was significant, resulting in the Department drawing Medicaid federal funds early for the entire year. This created a potential interest liability to the federal grantor, estimated to be more than \$145,000. The draft clearance pattern was also used to calculate the federal draws for several other grant programs, which could significantly increase the interest liability.

Other agreed upon draw methods are also not followed. For example, federal funds for the child care program were drawn once a week, yet the agreed upon method is to draw funds over a seven-day period. Cash assistance under the Temporary Assistance to Needy Families (TANF) program was drawn based on the benefit amounts authorized to clients,

rather than when funds were actually disbursed. The potential interest liability is not material in these instances, but it indicates the need for a comprehensive review of all draw methods by the Department to ensure compliance with the CMIA agreement.

RECOMMENDATION 06F-8

We recommend that the Department review the draw methods used for all federal grant programs to ensure compliance with the procedures identified in the CMIA agreement. We also recommend that the Department resolve the potential interest liability with the federal grantor.

CORRECTIVE ACTION PLAN

The Department has reviewed the final clearance pattern included in the CMIA agreement and found it does not correspond to the actual historic clearance pattern experienced by the Medicaid program. DFM has indicated they will review the clearance patterns with the Treasury to get the correct one in place. This should eliminate the interest liability. Other draw methods will be reviewed to bring them into compliance with the CMIA agreement.

CONTACT PERSON:

Richard Armstrong, Director
Department of Health and Welfare
208-334-5500

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF PRIOR FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Department Federal Program	State Agency	CFDA Number	Questioned Costs	Finding Reference
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HEALTH AND HUMAN SERVICES, DEPARTMENT OF

Temporary Aid to Needy Families (TANF)	Health and Welfare, Department of	93.558	\$1,831,578	04F-1
Child Support Enforcement	Health and Welfare, Department of	93.563	N/D	04F-2
Children's Health Insurance Program (CHIP)	Health and Welfare, Department of	93.767	4,000,000	04F-4
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	04F-6
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-1
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-2
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-3
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-4
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-5
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-6
Medical Assistance Program	Health and Welfare, Department of	93.778	N/D	05F-7
Child Support Enforcement	Health and Welfare, Department of	93.563	N/D	05F-8
Child Care and Development Block Grant	Health and Welfare, Department of	93.596	N/D	05F-9
Temporary Aid to Needy Families (TANF)	Health and Welfare, Department of	93.558	2,056	05F-10
Food Stamps Administration and Certification	Health and Welfare, Department of	10.561	N/D	05F-11

VOCATIONAL REHABILITATION, DIVISION OF

Rehabilitation Services Basic Support Grant	Vocational Rehabilitation, Division of	84.126	432,400	05F-12
Rehabilitation Services Basic Support Grant	Vocational Rehabilitation, Division of	84.126	N/D	05F-13

Total Questioned Costs			<u><u>\$6,266,034</u></u>	
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N/D = The amount of questioned costs for this finding is not easily determinable.

**STATE OF IDAHO
SINGLE AUDIT REPORT
PRIOR FEDERAL FINDINGS AND QUESTIONED COSTS
PRIOR TO THE FISCAL YEAR ENDED JUNE 30, 2006**

**Issue Number
CFDA Title/Number
Federal Agency
Questioned Costs**

**Finding
and
Noncompliance Issue**

FISCAL YEAR 2004

HEALTH AND WELFARE, DEPARTMENT OF

04F-1

Temporary Assistance to Needy Families (TANF)
93.558
Department of Health and Human Services
Questioned Costs: \$1,831,578

The Department improperly used more than \$1.8 million of the Temporary Assistance to Needy Families (TANF) Grant funds for inpatient treatment costs and child care services. Federal funding under the TANF program is available for a variety of services to clients, if certain eligibility criteria are met. These criteria establish income guidelines and job search and work requirements the client must agree to as conditions for receiving assistance.

Federal regulation (45 CFR 233.145 (c)) prohibits the use of TANF funds for medical services for any type of "remedial care provided by an institution to any individual as an inpatient." In addition, the Department's federally approved State Plan and the associated administrative rules (IDAPA 16.03.08.376) prohibit the use of TANF funds for any type of child care.

An analysis of costs charged to the TANF Grant during fiscal year 2004 disclosed the following:

1. Inpatient services in the amount of \$358,000 were incorrectly charged to the TANF program. The Department used TANF funds to provide services to children in group residential and mental health treatment facilities. These inpatient services included medical services, based on reviews of vendor invoices, that provided diagnosis and other information. These costs were unallowable to the TANF Grant, even if a portion of the costs were associated with room and board.
2. Child care costs of nearly \$1.5 million were charged to the TANF program in error. Near the end of federal fiscal year 2003, the Department determined that expenditures in the child care program would exceed available funding. As such, child care costs of \$1,473,578 processed through the Idaho Child Care Program (ICCP) automated system during August and September 2003 were redirected to the TANF Grant. This was done by adjusting the accounting system coding and did not involve any client-level determination or other processes to document eligibility. As a result, nearly \$1.5 million of the TANF funds were used improperly, which could result in financial sanctions or refund to the federal grantor.

We recommended that the Department comply with federal regulations by not charging medical services or child care costs to the TANF Grant. Program staff should be notified that residential treatment placements that include any medical services are not allowable costs to the TANF program.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

We also recommended that the Department contact the federal grantor to resolve the questioned costs and potential refund of federal funds.

Current Status: **OPEN**

Inpatient Treatment Costs. The Department is waiting for a final determination by the federal grantors as to whether inpatient costs and child care costs were made in accordance with federal rules and the State Plan.

Child Care Costs. In December 2005, the federal grantor reviewed the audit finding, and the Department anticipates receiving a written determination regarding questioned costs in the near future. The grantor also provided State Plan guidance to clarify use of TANF funds for child care. The State updated the TANF plan accordingly. The Division of Welfare and the Division of Management Services developed a better method for paying qualified child care services from TANF funds to prevent future questions.

04F-2

Child Support Enforcement

93.563

Department of Health and Human Services

Questioned Costs: Not determinable

No procedures existed to identify or pursue child support debts from the estates of deceased non-custodial parents. Federal regulation (45 CFR 303.6) requires the Department's child support enforcement program to take "any appropriate enforcement action" necessary to pursue and collect court-ordered amounts from non-custodial parents. A variety of methods and processes have been established by the Department to collect funds, including wage withholding, income tax refund offsets, and property liens.

One enforcement area not developed is pursuing the estates of deceased non-custodial parents. During fiscal year 2004, more than 230 cases were closed because the non-custodial parent died, but no efforts were taken to pursue the estate. In many cases, existing liens were released and efforts to collect from other sources were halted. We estimate that more than \$1 million in court-ordered debts were written off, including more than \$150,000 in debts owed to the State.

The child support procedures manual does not include any procedures for identifying or pursuing the estates of deceased non-custodial parents. Caseworkers generally determine that a non-custodial parent has died by reviewing the local newspaper obituaries or from information provided by individuals involved in the case. Data from Vital Statistics and the Social Security Administration is available but may take several months after the date of death before it is provided to the caseworker.

The Department currently has an estate recovery program in place for the Medicaid program, which could be used to pursue the estates of deceased non-custodial parents.

We recommended that the Department develop procedures for pursuing child support debts from the estates of deceased non-custodial parents through probate or other means. The Department should consider combining these efforts with the existing estate and probate recovery activities in the Medicaid program.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

Current Status: **OPEN**

The Department is pursuing changes to its policy and seeking additional staffing to resolve this issue. The Divisions of Welfare and Medicaid are currently evaluating how best to coordinate estate and recovery activities.

04F-4

Children's Health Insurance Program (CHIP)
93.767

Department of Health and Human Services

Questioned Costs: \$5 million

(federal share = \$4 million)

Eligibility continued to be improperly determined in one-third of the Children's Health Insurance Program (CHIP) clients tested. The fiscal year 2001 audit report disclosed that 25% of children enrolled in CHIP did not meet all eligibility requirements. The fiscal year 2003 audit report followed up on this issue and disclosed that errors continued to exist at nearly the same rate. Efforts were taken by the Department to modify the Eligibility Program Information Computer System (EPICS) and perform case reviews, resulting in a reduction in the number of clients enrolled in CHIP from 12,106 at June 2002 to 10,704 at June 2003. Total clients enrolled as of June 2004 were 12,046.

The audit showed that errors in determining eligibility continued to exist. A test of 30 randomly selected clients enrolled during June 2004 showed that 10 (33%) were not eligible for CHIP. Most of the errors were the result of miscounting income or resources, with some cases containing more than one error, such as excess income and having private insurance in force at the time of application.

A comparison of all 12,046 clients enrolled in CHIP in June 2004, with client health insurance coverage known by the Medicaid AIM system, showed that 1,239 (10.3%) had some form of health insurance coverage in force during the month. In nearly all cases, insurance data existed at the time of application or at the annual redetermination date but was not considered in determining eligibility.

Most errors were the result of increasing case loads, declines in resources and staffing, and the use of outdated automated systems. Although the number of clients served from month to month appeared to have leveled off, this comparison did not reveal the actual volume of work performed.

Additionally, there were no system edits in either EPICS or the Medicaid claim payment system to identify CHIP clients who have health insurance resources. Policies were not in place to direct staff to search for insurance coverage in the Medicaid system at the time of application or during the annual redetermination.

Proper eligibility determination is crucial in providing CHIP benefits to only those in need. These errors could result in the repayment of more than \$4 million to the federal grantor for the federal share of CHIP benefits provided to ineligible clients.

We again recommended that the Department review case files and remove ineligible clients from CHIP. Additional resources and renewed efforts are also needed to develop new automated systems and processes to limit the opportunity for recurring eligibility errors.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

We also recommended that the Department negotiate a resolution with the federal grantor concerning the potential refund for the cost of providing services to ineligible clients.

Current Status: **OPEN**

The Division of Welfare has filled 26 newly approved positions and will hire 9 more positions in January 2006, in accordance with the plan approved by the Legislature. Of the 26 positions hired, 11 were allocated to create the Family Medicaid Consolidated Unit.

Pending the outcome of an evaluation period currently underway, the Family Medicaid Consolidated Unit may eventually handle all "Medicaid only" applications, redeterminations, and eligibility for the entire State. During this pilot period, accuracy and time lines will be evaluated. A determination will then be made regarding movement of other cases into the unit.

Improvements to EPICS were made in May 2005, which allowed easy identification of individuals approved for CHIP, by who appears to be Title XIX eligible. Alerts are generated that allow staff to make corrections quickly.

The questioned cost amount has not yet been resolved with the federal grantor.

04F-6

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

The Department had not taken steps to pursue absent parents for reimbursement of ongoing Medicaid costs. Federal regulation (42 CFR 433.138) requires the Department to seek reimbursement of Medicaid costs from all liable third parties. A liable third party is defined by federal regulation (42 CFR 433.136) as "any individual, entity or program that is or may be liable to pay all or part of the expenditures" for medical assistance furnished under the Medicaid program.

The fiscal year 2002 legislative audit recommended that the Department take steps to develop and implement a strategy to pursue and recover Medicaid costs from absent parents. However, as of January 2005, no efforts have been made to pursue absent parents for ongoing Medicaid costs.

The regulations specify the actions to be taken, and require the Department to identify the paternity of all children receiving assistance, and obtain data about the absent parent and their employer in order to recover the costs of services provided. Efforts to identify paternity and employer data can be coordinated with the child support enforcement program. However, the regulations clearly establish the Medicaid program's responsibility to identify all absent parents and other liable third parties, since many clients are not served by the child support program.

Administrative rules (IDAPA 16.03.09.031) further reinforce this issue by directing the Department to "recover payments for medical expenses from any liable third party, including a parent."

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

The legal responsibility and location of absent parents are known for most of the 25,000 cases that have an existing court order for child support. If only 10% of these cases were pursued, the Department could recover more than \$6 million in Medicaid costs and possibly reduce future costs by encouraging absent parents to insure their children rather than risk potentially large recoveries. The effort to pursue absent parents may require additional resources that could be offset by the recoveries generated by this effort.

We recommended that the Department develop a strategy to pursue and recover Medicaid costs from absent parents. This strategy should include methods for identifying all absent parents and opportunities to incorporate the Department's existing efforts and information in pursuing these individuals.

Current Status: **OPEN**

The Department consulted with federal officials about the authority to designate an absent parent as a liable third-party resource. The Department is still waiting to receive guidance from the Center of Medicare and Medicaid Services (MBS) on this issue.

FISCAL YEAR 2005

HEALTH AND WELFARE, DEPARTMENT OF

05F-1

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Changes were needed in the criteria used to establish Medicaid eligibility under the Katie Beckett program. The Home Care for Certain Disabled Children (Katie Beckett) Medicaid program is authorized under section 1915(c) of the Social Security Act, and allows states to extend Medicaid eligibility to children with disabilities, who would not otherwise qualify due to parental income or other resources. These children require an institutional level of care and would qualify for Medicaid if placed in an institution. However, by waiving the income and resource requirements, these children can be cared for in their own home at a lower cost to Medicaid. The primary program objective is to provide the required institutional levels of care at the lowest possible cost to the Medicaid program.

Federal regulations define "institutional level of care" as those services that are inherently complex; performed or supervised by technical or professional personnel; have been ordered by a physician; and are required 24 hours per day and ordinarily furnished, as a practical matter, on an inpatient basis (42 CFR 409, 435, 440, and 483).

Federal regulation (42 CFR 435.225) also defines the criteria that states must meet when determining eligibility under the Katie Beckett program. States can extend eligibility to children under the age of 19 "who would be eligible for Medicaid if they were in a medical institution, and who are receiving, while living at home, medical care that would be provided in a medical institution." In addition, it must be appropriate to provide this care outside such an institution, and the cost to Medicaid shall be no higher than the estimated Medicaid cost for appropriate institutional care.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

In Idaho, the Katie Beckett Medicaid program is included in the Department's Medicaid State Plan, and the conditions for eligibility and other requirements are established in administrative rules (IDAPA 16.03.05 and 16.03.09). Although these rules generally mirror the federal regulation language, the Department's interpretation states that eligibility is "not dependent upon the receipt of services, but rather on whether the child needs the level of services" provided by an institution. In addition, the family may or may not choose to receive the same level of services they would receive in an institution, and they may elect to receive fewer services as long as the child can be safely and effectively served in the community. This interpretation varies from the language and intentions of federal regulations by establishing eligibility based on medical condition without regard to the delivery of required institutional levels of care while the child lives at home.

During fiscal year 2005, more than 1,600 children received Medicaid benefits under the Katie Beckett program at a cost of nearly \$24 million. However, nearly one-third of these children (534) received less than \$3,000 each in benefits during the year. Most of these children received limited services, such as school-based therapy, prescription drugs, or other services that were not institutional in nature. Significant periods of time existed when no services were provided at all. Allowing families to choose the type, frequency, and intensity of services is contrary to the federal criteria that the child receive the required institutional levels of care as a condition of eligibility.

No requirement exists for the Department to ensure that the required institutional level of care is provided. Cost data in the Medicaid system clearly shows that at least one-third of the current clients are not receiving institutional levels of care, and the Department has no knowledge that these services are provided, or paid for by the family. The absence of any evidence that institutional care is provided raises the likelihood that, although medically eligible for institutional care, the delivery of such care is not required, and the objectives of the Katie Beckett program are not met.

A comprehensive medical evaluation and needs assessment is developed for all clients determined eligible for the Katie Beckett program. However, no process exists to ensure that the level of care required and ordered by a medical professional is provided.

A more thorough review is needed to determine whether the lack of Medicaid costs for institutional care is an issue of eligibility, medical diagnosis, or the need for improved monitoring to ensure clients are receiving appropriate care paid for or provided by others.

Other states, such as Maine, have recently revised their rules, and require parents of a Katie Beckett child to provide detailed documentation of medical services provided to ensure that the child is safely and effectively served outside an institutional setting. This information could also confirm whether the determination of medical condition and eligibility was appropriate.

Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006

We recommended that the Department undertake a thorough review of the criteria used to determine eligibility in the Katie Beckett program, and establish processes to monitor services provided to clients to ensure that an appropriate level of care is provided.

Current Status: **OPEN**

This issue was submitted to the federal grantor for review and the Department is still awaiting a response before taking any action.

05F-2

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Idaho is one of only two states without a certified Medicaid Fraud Control Unit (MFCU). The federal government offers a grant program (CFDA 93.775) to fund State MFCUs. The grant provides 90% federal funding for the first three years, and 75% thereafter, for investigation and prosecution of fraud and patient abuse in the State Medicaid program. The certified MFCU must be separate and distinct from the State Medicaid agency, and must employ sufficient professional, administrative, and support staff to perform its duties and responsibilities in an effective and efficient manner.

The Department's Fraud and Investigation Unit does not meet the independence requirements to be certified and is, therefore, funded as Medicaid administrative costs at 50% federal match. In addition, no comprehensive program exists within the Department or other State agency to investigate and prosecute patient abuse issues. As of June 2005, Idaho and North Dakota are the only states without a certified MFCU.

Increased Funding. Moving the program to an independent entity, such as the State Attorney General's Office, would allow the program to be certified and receive five times more resources every year for the first three years, and double the current resources every year thereafter, without any additional General Funds. Total program funding could increase from \$400,000 to \$2,000,000 per year for the first three years and \$800,000 per year thereafter, based on the current General Fund share of \$200,000.

More Investigations and Recoveries. More suspected Medicaid fraud cases could be investigated and pursued, which would likely result in increased recoveries. A national report of certified units in other states for fiscal year 2003, showed that recoveries averaged more than \$2 for every \$1 in costs. The enhanced federal funding could also provide the resources necessary to establish a comprehensive program to seek out, investigate, and prosecute physical and financial abuses of elderly patients. Current national and local news stories about abuse of the elderly highlight the need for a program to address these issues in Idaho.

Other Benefits. Several other benefits result from establishing a certified MFCU. For example, an independent unit would allow investigations to proceed without any actual or perceived conflicts of interest. This would improve public confidence and ensure that investigations were resolved based on the merits of the issues.

Establishing the unit within the State Attorney General's Office would also provide a statewide platform in which to announce the efforts and results of fraud investigations and elder abuse. This public exposure would provide additional deterrence, and notify clients and providers that suspected cases of Medicaid fraud and elder abuse will be pursued.

We recommended that the Department initiate a dialog with executive and legislative leadership to evaluate the merits of establishing a certified MFCU, which could provide additional funding for investigating and prosecuting suspected cases of Medicaid fraud and patient abuse. We suggested that this dialog include the State Attorney General.

Current Status: **OPEN**

A bill to establish a certified MFCU was introduced in the 2006 legislature session, but was held in the Senate Health and Welfare Committee to allow more time to study the issue. The Department continues to believe that the decision to establish a certified MFCU is a policy decision for the Legislature and the Governor's Office, and will contribute to the discussion as recommended.

The Legislative Audit staff also met with members of the State Attorney General's Office to discuss the efforts taken to evaluate establishing a certified MFCU within its office. The Attorney General's staff is currently researching this issue to identify the requirements and changes needed to existing Idaho laws and rules for establishing a certified MFCU. The Attorney General's staff has also met with officials from the Nebraska Attorney General's Office, which established a certified MFCU in 2004, to identify the processes and challenges.

05F-3

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

The process for identifying and recording private health insurance coverage of Medicaid clients needed improvement. Federal regulation (42 CFR 433.139) requires the Medicaid program to establish the "probable existence" of liable third parties at the time claims are paid. This follows the general concept that the Medicaid program is the "payor of last resort" when all other resources and liable third parties, including private health insurance, are exhausted. The greatest challenge in meeting this requirement is identifying health insurance that exists or becomes available while a client is eligible for Medicaid assistance.

The Department has a contract to identify Medicaid clients who have private health insurance as part of the overall third-party recovery efforts. The contractor uses a variety of processes to identify Idaho Medicaid clients who have health insurance with carriers across the nation. They also analyze provider claims that indicate other insurance has paid a portion of the costs. Claims that indicate other insurance has paid are referred to as "suspect claims."

Some insurance data known by providers was not pursued. We analyzed all claims paid during February 2005 and identified 59,628 "suspect claims" where providers indicated a payment was received from an insurance resource. We performed a simple comparison of these claims with the record of known health insurance resources, and identified 1,168

claims (749 clients) in which resources known by providers were not entered in the Automated Information Management (AIM) system. Although providers sometimes identify amounts as "other insurance" in error, several claims that were examined more extensively identified insurance resources that were not entered in the AIM system.

Several reasons exist as to why other insurance data is not pursued. However, most instances result from changes in a client's insurance coverage or carrier that are not identified promptly and do not trigger a review of the suspect claim. Our review of suspect claims was performed nearly seven months after the claims were paid, and highlighted this situation. A retrospective review of suspect claims could identify new resources and reduce the delay in identifying policy changes or new insurance carriers.

Insurance resources were recorded that have little or no possibility for cost avoidance or recovery. We analyzed the nearly 82,000 insurance resources added to the Medicaid AIM system during fiscal year 2005, and identified 489 insurance resources with coverage periods that started after the client's Medicaid eligibility had ended. Obviously, no cost avoidance or recovery could occur, since no claims were paid during the insurance coverage period. Based on the contract rate of \$39 per insurance resource, the Department paid nearly \$20,000 for insurance resource data that had no chance for any cost avoidance or recovery at the time it was entered.

The contract and related documents require the contractor to identify and validate insurance coverage for Medicaid-eligible recipients that can be billed. Although this process is not specifically described, the volume of resources that do not overlap client eligibility indicates the need to improve the contract definitions, processes, and monitoring.

No comprehensive data match exists with Blue Cross or Regence Blue Shield of Idaho. The contractor uses an automated "data match" process to identify Medicaid clients who have health insurance coverage. However, a comprehensive data match process does not exist with Blue Cross or Regence Blue Shield of Idaho, the two insurance companies that cover more than 75% of all Idaho citizens (based on the 2004 Idaho Department of Insurance annual report).

Blue Cross and Regence Blue Shield both provide access that allows the contractor to search for clients. However, the current processes are limited and create inefficiencies that may allow omissions to occur. An enhanced process is needed to improve the time frame and ability to identify Medicaid clients who have health insurance coverage issued by Idaho-based companies. This effort may require legislation or administrative rules to establish the Department's ability to access private health insurance data.

We recommended that the Department improve the processes and efforts to identify and record health insurance resources of Medicaid clients as follows:

1. Develop a retrospective review process for suspect claims, in order to identify insurance resources known by providers previously excluded from the process.
2. Amend the contract to define a valid insurance resource as one where the coverage period overlaps the client's period of Medicaid eligibility. The Department should analyze all insurance resources added during the last year, and request a refund from the contractor for fees to add resources for clients who were not eligible during the insurance coverage period.
3. Coordinate the establishment of an enhanced data match process with Idaho-based private insurance companies to improve the efforts to identify Medicaid clients having health insurance. This may require the assistance of the Idaho Department of Insurance and legislation to establish the Department's ability to access this data.

Current Status: **OPEN**

The Department has made progress with the following corrective actions:

1. Some insurance data known by providers is not pursued. The contractor has made several changes to strengthen its processes, including adding new staff and holding weekly meetings to discuss and resolve issues.
2. Insurance resources are recorded to have little or no possibility for cost avoidance or recovery. The Department maintains its original response that no corrective action is necessary.
3. No comprehensive data match exists with Blue Cross or Regence Blue Shield of Idaho. The Department is in the process of researching legislation in other states related to this issue.

05F-4

Medical Assistance Program
93.778

Department of Health and Human Services
Questioned Costs: Not determinable

Medicaid eligibility continued to be improperly determined, due primarily to the outdated automated system. The prior two audit reports included issues relating to errors in determining Medicaid eligibility, and delays in processing applications and completing re-determinations of eligibility within the required time frames. Improvements were made to the processes, additional staff was authorized, and training and quality review programs were established. However, the volume of errors remained high, and the primary factor not yet addressed by the Department was the outdated automated Eligibility Program Information Computer System (EPICS) used to process and record Medicaid eligibility.

The federal grantor has provided funding to evaluate Medicaid eligibility and payment errors over the past several years, the current results of which were disclosed in the *Payment Error Rate Measurement Report* issued in October 2005. This report indicates that the error rate for determining eligibility for Medicaid has remained at 10% for the past two years. The eligibility error rate for the CHIP has improved, but remained very high at nearly 30%. These error rates indicate that more than 20,000 clients, many of whom are ineligible for any type of Medicaid assistance, are incorrectly determined eligible.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

Several reasons for payment errors were described in the report, but the cause for the high eligibility error rates was not specifically identified. Based on our tests and evaluation of the processes used to determine eligibility, we believed EPICS was the primary factor contributing to these high error rates.

The process for determining Medicaid eligibility requires gathering relevant data about a client, household composition, income, resources, and a variety of other factors. This data is entered into EPICS and, through various automated methods, provides management data to staff for use in determining eligibility, timing re-determinations, and generating information necessary to ensure that benefits to clients are properly calculated and supported.

EPICS works well at processing and storing data, but this system was originally developed during the early 1980's and has been extensively modified over the past 25 years. The core software and system processes do not integrate well with current technology and Web-based applications. Other factors limit the functionality and control needed to assist staff in correctly determining eligibility and linking to other essential data sources. It is these conditions that create the opportunity for errors, and limit the efficient and effective processing of applications and eligibility determinations.

Data in EPICS is also used to support eligibility for many other benefit programs managed by the Department. This data is shared electronically with other automated systems to process payments, determine eligibility, or provide updated client information. These other programs are adversely affected by the limitations of EPICS to process data in the current automated environment.

The Department requested funding for fiscal year 2007 to replace the system; however, this was not included in the Governor's budget recommendation to the Legislature. Although some efforts can be taken with existing funding, a specific budget unit and organized project is needed to address this critical need.

We recommended that the Department identify the processes and issues that cause Medicaid eligibility to be improperly determined. Corrective action is also needed to address payment processing errors reported in the *Payment Error Rate Measurement Report*. We also recommended that the Department continue to seek resources to replace EPICS.

Current Status: **CLOSED**

The Department has completed all of the corrective actions from its original response. The EPICS modifications were made, the Medicaid waiver has been implemented, and the replacement of EPICS has begun. The Department anticipates seeking additional funding during the 2007-2008 legislative sessions to complete the EPICS replacement.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

05F-5

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not Determinable

Essential edits in the Medicaid claims payment system were disabled and allowed claims to be paid in error. Each state Medicaid program is required by Title XIX of the Social Security Act and federal regulations (42 CFR 433) to operate an automated claims processing system. These systems are generally referred to as Medicaid Management Information Systems (MMIS) and must meet strict standards for operation, as described in the *State Medicaid Manual* published by the federal grantor, Centers for Medicare and Medicaid Services (CMS).

The processing system must meet several basic procedures to ascertain that each claim includes proper information about the client, provider, type of service, and other data that ensure the claim is supported and the amount paid is accurate. Automated system edits, calculations, and comparisons are required to ensure the accuracy of claims processing to reduce or eliminate the opportunity for errors.

We analyzed claims paid from January to June 2005 and determined that several system edits that ensure the accuracy and validity of claim payments were disabled during this period. For example, the two edits that ensure each claim properly identifies the client and the provider were disabled. These edits match the names and identification numbers on the claims to the list of authorized providers and eligible clients and are essential to ensure the accuracy of payments.

We identified nearly 500 claims paid between January and June 2005, in which client names and identification numbers did not agree to the record of eligible clients. Our limited review of 30 clients showed at least three instances in which the client actually served was incorrectly entered. In one instance, the claim was paid in error because the actual client was not eligible on the date of service.

We also noted that the edit to deny claims resulting from injuries or accidents was also disabled. This edit is intended to ensure that Medicaid is the payor of last resort and require providers to seek payment from other liable sources. These other sources are generally casualty or liability insurance in connection with injuries sustained in a vehicle accident or where other liability coverage may exist.

As a result, claims are paid that should be denied when other liable resources relating to injury or accident claims may exist.

We recommended that the Department enable all essential system edits to ensure the accuracy of claims paid and ensure that Medicaid is the payor of last resort when claims relating to injuries or accidents are submitted.

Current Status: **OPEN**

The Department has taken steps to apply the "name number mismatch" edit to crossover claims from Medicare. These crossover claims were not previously subjected to this edit, and are the bulk of items identified in the audit. The review of injury-accident edits is still in progress.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

05F-6

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

The Healthy Connections Medicaid program was not cost effective for at least two of four eligibility groups. The Healthy Connections program is a "freedom of choice" waiver under Title XIX, section 1915(b) of the Social Security Act, intended to reduce Medicaid costs by assigning clients to primary care physicians who will manage their medical needs. The general concept of this waiver program is to reduce unnecessary utilization of high-cost services such as emergency rooms, inpatient hospitalization, and specialists, without adversely affecting the quality or access to medical services by clients.

The federal grantor requires that all waiver programs be cost effective or cost neutral, meaning that the savings are at least equal to or greater than the cost of the program. A calculation of the cost savings for the Healthy Connections program is performed each quarter by the federal grantor, based on financial and statistical data provided by the Department. This calculation divides clients enrolled in the program into four Medicaid eligibility groups to reduce the effects of different eligibility criteria and utilization.

Based on the calculations provided by the federal grantor for fiscal year 2005, two of the four Medicaid eligibility groups had not been cost effective over the past three quarters, and a third group had not been cost effective in the most recent quarter. Although the program encourages providers to accept more Medicaid clients, it apparently did not result in a reduction in total Medicaid costs. The federal grantor may suspend the waiver and could seek recovery of excess costs of operating the program.

We recommended that the Department reevaluate the Healthy Connections waiver and discontinue this program, or consider incorporating it into the State Plan to eliminate the need to justify cost effectiveness and eliminate the potential refund of program costs to the federal grantor.

Current Status: **CLOSED**

The Department submitted an amendment to incorporate the Healthy Connections program into the State Plan effective no later than October 2006.

05F-7

Medical Assistance Program

93.778

Department of Health and Human Services

Questioned Costs: Not determinable

Efforts by the child support program to recover Medicaid birth costs were not consistent. The Medicaid program is responsible for pursuing all liable third parties for medical costs paid by the program. Part of this responsibility is assigned to the child support program to pursue non-custodial parents for birth costs paid by the Medicaid program.

The collection of birth costs by the child support program have increased steadily since this effort was re-established in January 2002, as shown in the following table:

Fiscal Year	Collections
FY 02	\$642,298
FY 03	1,454,992
FY 04	2,585,492
FY 05	2,448,224

However, our limited tests showed that as many as one-third of all single-parent birth costs paid by Medicaid (6 of 19 cases tested) were not pursued by the child support program. Four of these cases did not have a child support case established, and two had a case established, but birth costs were not pursued or included in the court order.

It is the general practice of the child support program not to pursue birth costs from the biological father if he resides with or subsequently marries the mother. However, if the income and resources of the biological father are not considered when determining eligibility, then he is a third-party resource, as defined by Medicaid regulations, and must be pursued. The child support program may exclude cases from pursuit when such efforts would put the custodial parent at risk. However, no documentation was available to support the reasons for not pursuing birth costs or establishing a child support case.

As a result, we estimate that recoveries could increase by \$500,000 or more annually, if child support cases were established and pursued in all instances involving birth costs of a single-parent Medicaid client.

We recommended that the Department pursue birth costs from all biological parents who are not included on the application for Medicaid assistance. Child support cases should be established for all clients, and the reasons for not pursuing birth costs documented, where appropriate.

Current Status: **CLOSED; Repeated as 06F-01** The review of this issue by the Department is still in progress.

05F-8

Child Support Enforcement

93.563

Department of Health and Human Services

Questioned Costs: Not determinable

The number of child support cases with debt errors had declined, but remained high. Child support obligations are established by an order of the court and recorded in the Department's sophisticated computerized program known as the Idaho Child Support Enforcement System (ICSES). This system has features to record and accrue debt amounts, track collections, and distribute funds on multiple debts. Total debt balances on the nearly 82,000 open cases in the system, as of June 2005, were approximately \$490 million.

We reported in a prior audit that more than 75% of child support debts pursued by the Department were the wrong amount or type of debt. Significant improvements have been made in the procedures to establish and adjust debts in ICSES, and several hundred cases are reviewed every month by a contractor to identify and correct debt errors. Review efforts have focused on cases where the client has complained or the case worker has noticed a potential error in the debt balances. These improvements and focused reviews have reduced the number of cases with debt errors to approximately 20%, based on our current sample results. However, this still represents more than 16,000 cases (20% of 82,000) where the Department is pursuing the wrong amount or type of debt.

At the current volume of reviews performed each month, it will take more than ten years to work through all existing cases to identify and correct debt balance errors. The Department's request for additional funding to

address this issue was not included in the Governor's recommendation in the fiscal year 2007 budget. In addition, changes in program requirements at the federal level will likely reduce grant funds in the coming year and place additional demands on State resources to meet program needs.

We recommended that the Department enhance its efforts to review and correct child support debts. The Department should continue to pursue additional resources to address this issue in order to complete this effort within a reasonable time frame, perhaps within the next two to three years.

Current Status: **OPEN**

The Child Support program has improved the financial accuracy of cases by establishing consolidated units and standardizing the various processes. Each consolidated unit has developed, or is in the process of developing, processes and methods to improve performance.

Although improvements have been made to reduce errors, efforts to evaluate the accuracy of debts for all cases will still not be completed within the recommended two to three years, based on the current rate of case reviews.

05F-9

Child Care and Development Block Grant
93.596

Department of Health and Human Services
Questioned Costs: Not determinable

Child care benefits were calculated on market rates and poverty tables that were more than five years old. The Department's administrative rules for the Child Care Program (IDAPA 16.06.12) describe the methods for calculating benefits provided to clients. Benefits are based primarily on surveys of rates charged by child care providers and a sliding fee scale based on the federal poverty rate. Surveys are required at least every two years (rule 305.01(d)), and the poverty rate is the established rate published annually in the federal register (rule 307.01). However, these key calculation components have not been updated for more than five years.

The current benefit calculation uses survey results as of January 1, 2001, and the sliding fee scale is based on federal poverty rates in effect through March 17, 1999. As a result, lower amounts of assistance are provided for those clients most in need, while excluding others whose income is less than current poverty amounts from receiving any assistance. This approach has limited the program growth, with the unintended result of inhibiting access for the working poor and the potential success of the program.

The reason for using old market surveys and poverty rates is likely an intended method for managing the growth in program costs. However, this approach undermines the integrity of the administrative rules and related processes that ensure appropriate and equitable access to benefits.

We recommended that the Department base the child care benefit calculation on current market rate surveys and federal poverty rates, as required by administrative rule. Efforts to manage the growth in program costs should rely on appropriate processes to adjust administrative rules or other factors used to determine benefit amounts and client eligibility.

Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006

Current Status: **CLOSED**

The Department will propose two rule changes to the Idaho Child Care Program during the 2007 legislative session. These changes are expected to generate a savings that will allow current market rates and poverty tables to be used.

These rule changes will limit student eligibility by establishing a work requirement and reduce the period of time in which a post-secondary student can receive benefits.

05F-10

Temporary Assistance to Needy Families
(TANF)

93.558

Department of Health and Human Services
Questioned Costs: \$2,056 in medical costs;
other amounts not determinable

TANF funds were used for medical costs, foster care services and other unallowable activities. Federal funds under the Temporary Assistance to Needy Families (TANF) program are available for a variety of services to clients, and are distributed to several programs across multiple divisions within the Department. Costs are allowable if they directly meet one of four federal program purposes, or were specifically authorized under prior federal law and the Department's 1995 State Plan. Federal regulations prohibit the use of TANF funds for medical services.

We reported in the prior audit that TANF funds were used for medical costs and other unallowable services. Improvements in supervisory oversight and Department policies have been made over the past several years, reducing the number of questionable or unallowable expenditures. However, we continue to identify expenditures for various costs that are specifically unallowable, or for services to families with incomes that exceed established limits.

Medical services were charged to TANF in error. Federal regulations and the Social Security Act (Title IV-A section 408(6)(A)) prohibit the use of TANF funds for any type of medical services. We identified \$2,056 in orthodontic and other medical costs paid with TANF funds that are specifically not allowable.

Unallowable foster care costs were paid using TANF funds. Foster care costs for children eligible under the Title IV-E Foster Care Grant cannot be paid with TANF funds.

Eligibility for Title IV-E foster care services must be completed within 30 days, as required by Department policy. However, the Department routinely uses TANF funds to pay all costs for the first 90 to 120 days for most new foster care cases, prior to charging other programs depending on a child's eligibility. As a result, TANF funds are used improperly to pay for services after a child's eligibility under the Title IV-E Foster Care Grant has been determined. The amount of unallowable costs is not readily determinable due to the many variables and conditions that exist.

The Department also uses TANF funds to pay foster care costs for children placed with a non-relative, as authorized under prior law and the State's 1995 State Plan. These costs must be reported separately in the federal quarterly grant reports. However, since the TANF program began in 1996, no amounts have ever been reported.

Emergency conditions beyond a family's control are not properly documented. The State Plan allows the use of TANF funds to assist families if their income is at or below 200% of poverty, or they are unable to meet an "emergency condition" due to circumstances beyond their control. In several cases we reviewed, assistance was provided to families with incomes that exceeded 200% of poverty, and the documented circumstances did not indicate an emergency condition existed or that the events were beyond the families' control.

For example, nearly \$6,000 in TANF funds was used to pay for a vinyl fence because the family's child was at risk of wandering away from home. The family owned and operated a business with income above 200% of poverty. These factors were known at the time of application, but a financial analysis was not prepared to identify the family's income or resources. Assistance was provided based on the family's representation of their inability to resolve the emergency due to "circumstances beyond their control."

We question the conclusion that the child was in an "immediate danger of a life-threatening or emergency situation," or that the circumstances were beyond the family's control or financial resources. In addition, purchasing a high-quality vinyl fence to enclose the family's entire yard does not appear to be the lowest cost option for resolving this situation.

We recommended that the Department review all foster care costs paid with TANF funds, in order to identify the amounts allowable under prior law, and amend the federal quarterly reports for the past year to accurately reflect the amounts. The Department should amend the current TANF State Plan to clarify the circumstances for which foster care costs are allowable, and develop new coding structure to properly report these costs in the future.

We also recommended that the Department reaffirm with staff, the requirements for documenting family income and emergency conditions when authorizing services using TANF funds, and return \$2,056 to the federal grantor for medical costs charged to the TANF Grant in error.

Current Status: **CLOSED**

The Department has completed all of the corrective actions described in its original response.

05F-11

Food Stamps Administration and Certification
10.561
Department of Health and Human Services
Questioned Costs: Not determinable

Food stamp error rates continued to exceed the allowed percentage and will result in additional financial sanctions. The fiscal year 2003 audit report found that the food stamp error rate in Idaho had exceeded the allowed maximum for the past two years. This trend has not improved, and a financial sanction of \$277,464 was imposed on the Department by the federal grantor for fiscal year 2004. A larger sanction is likely for fiscal year 2005.

Federal regulations (7 CFR 275) require states to limit the number of errors when determining food stamp benefits and eligibility. Errors are identified as either over- or under-payments, or "negative errors," which

represent individuals who were improperly denied assistance. The maximum acceptable payment error rate, as set by the federal grantor, has declined steadily over the past several years and was 5.88% for fiscal year 2005. States with an error rate greater than this may be sanctioned, while those with a lower payment error rate could receive additional funding.

The Department's payment error rate for fiscal year 2004 was 9.18%, which exceeded the allowable rate of 6.64% and resulted in a sanction of \$277,464. Although the Department has reduced the error rate, as shown in the following table, it continued to exceed the allowed rate and will likely result in another sanction for fiscal year 2005. The amount of the sanction is not yet determined, but could exceed the prior year's amount based on the factors used by the federal grantor to calculate sanctions.

Year	Allowed Rate	Payment Error Rate	Sanction	Negative Error Rate
FFY 2002	8.26%	9.04%	\$45,677	5.25%
FFY 2003	7.64%	11.31%	0	10.05%
FFY 2004	6.64%	9.18%	277,464	10.93%
FFY 2005	5.88%	8.23%	unknown	10.61%

Note: The sanction for federal fiscal year 2002 was waived, and no sanctions were imposed on any state for federal fiscal year 2003.

The negative error rate, which represents the percentage of clients who were denied benefits in error, has remained above 10% for the last three years. Although the federal grantor does not sanction states for this type of error, the effect is that nearly 3,000 families in Idaho were improperly denied assistance during 2005.

The Department received additional resources and staff during the fiscal year 2005 legislative session, which allowed reductions in case loads per worker, and improvements in the monitoring, review, and quality control functions. These efforts are reflected in the declining error rates. However, errors continue to occur beyond the allowed limits, due primarily to the outdated EPICS used to record and process applications and benefits.

As mentioned earlier, EPICS was initially installed in the early 1980's and has undergone significant adjustments and modifications during the last 25 years. However, this system uses outdated technology with significant limitations and the inability to integrate with newer systems and Web-based applications. All of this combines into a situation where food stamp error rates will likely remain at unacceptable levels for the foreseeable future.

We continued to recommend that the Department improve the accuracy of the eligibility process to reduce payment errors and negative error rates, in order to avoid additional sanctions and the consequences to needy families who are denied assistance in error.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

A renewed effort to seek funding to replace the outdated EPICS should be considered.

Current Status: **CLOSED**

The Department has completed most of the corrective actions and reduced the error rate to within 0.2% of the national average for federal fiscal year 2005. Efforts are continuing to further reduce the error rate and seek additional funding to complete these efforts and replace EPICS.

VOCATIONAL REHABILITATION, DIVISION OF

05F-12

Rehabilitation Services Basic Support Grant
84.126
U.S. Department of Education
Questioned Costs: \$432,400

The Division was not in compliance with the requirements for allowable costs for the Rehabilitation Services Basic Support Grant. The Rehabilitation Services Basic Support Grant assists the Division in operating statewide comprehensive vocational rehabilitation programs. These programs include, but are not limited to, assessment, counseling, vocational and other training, job placement, and rehabilitation technology. Each program is an integral part of a statewide workforce investment system and is designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities. These services assist disabled Idaho residents in retaining or entering into employment commensurate with their abilities, skills, and desires. During fiscal year 2005, the State spent more than \$13 million in Basic Support Grant funds, and the State matched this grant with more than \$3 million.

The Division must comply with several federal regulations for the Basic Support Grant, including specific regulations related to allowable costs and other cost principles. The Office of Management and Budget (OMB) *Circular A-87, Cost Principles for State, Local and Indian Tribal Governments*, lists the primary requirements for establishing allowable costs. This guidance also provides the methodologies for charging these costs to grants. The following are examples of non-compliance with these cost principles.

1. The Division is charging indirect costs without an approved plan. Indirect costs are those incurred for a common or joint purpose, benefitting more than one objective, and that cannot be readily identified with a particular final cost objective. *OMB Circular A-87* explains how to develop an indirect cost proposal with the proper documentation. The proposal is then submitted to a cognizant agency for approval of an indirect cost rate.

The Division submitted an allocation proposal to the U.S. Department of Education (USDE) in fiscal year 2002. This allocation proposal was rejected, and the Division was asked to provide an indirect cost-rate proposal. The Division submitted an indirect cost-rate proposal dated August 26, 2004. Additional information was requested by the USDE, but the Division has not yet provided the information. As a result, the Division has not complied with this requirement, and has charged indirect costs based on an unapproved cost-rate proposal.

2. *OMB Circular A-87* also states that costs allocable to a particular federal award or cost objective may not be charged to other federal awards. The Division charged the Basic Support Grant \$432,400 in costs allocable to eight other State and federal programs. These

Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006

costs were charged to the Basic Support Grant because the cost limits for the other programs had been reached. The Division's allocation plan set amounts that could be charged to the eight other State and federal grants. When these amounts were reached, all remaining indirect costs were charged to the Basic Support Grant.

3. *OMB Circular A-87* requires employees who work on multiple activities or cost objectives to support time worked with activity reports, approved time sheets, or equivalent documentation. A statistical sampling system or other substitute system may be used if approved by the cognizant federal agency. Payroll costs of \$7 million for 135 Division employees charged to the Basic Support Grant were not properly supported with time certifications, time sheet work activities, or other approved methods to determine allowable personnel costs. The Division reduced each payroll draw by \$25,000 to compensate for employees' time not attributable to the grant. This method was not approved by the cognizant federal agency, the USDE.

The Division did not know this federal regulation existed. Therefore, it has not maintained the required documentation. As a result, the grant may have been over- or undercharged the appropriate amount for payroll costs.

Similar issues were also identified in the USDE's Rehabilitation Services Administration *FY 2004 Annual Review Report* of the Division issued December 13, 2005.

We recommended that the Division obtain an approved indirect cost-rate plan and properly document payroll costs. We also recommend that the Division consult with the USDE regarding the questioned costs.

Current Status: **CLOSED**

The Division has filed an indirect cost rate proposal dated March 10, 2006. The rate proposed is 10.677%. On March 8, 2007, the Division contacted the U.S. Department of Education and was told no progress had been made in the approval process. Based on OMB Circular-A-133, Supplement (-315(b)4)), a finding may be closed if the federal agency is not currently following up with the auditee.

The Division consulted with the federal cognizant agency regarding the questioned costs. The federal cognizant agency stated the Division needs an indirect cost rate, but has not addressed the status of the questioned costs.

05F-13

Rehabilitation Services Basic Support Grant
84.126
U.S. Department of Education
Questioned Costs: Not determinable

The Division did not fully comply with all federal requirements for the Basic Support Grant. As stated in the prior finding, the Basic Support Grant assists the Division in operating statewide comprehensive vocational rehabilitation programs. *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* establishes 12 compliance requirements for the Basic Support Grant. The Division did not fully comply with three of these requirements, including cash management, eligibility, and reporting. The following explains this non-compliance.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

1. Cash Management. Cash management requests for reimbursement of costs spent on the grant are required to be supported with proper documentation prior to the reimbursement request. The Division requested \$500,000 in cash draws in both January and May 2005 without supporting documentation for the costs incurred. Although costs related to the federal program were incurred when the funds were requested, the supporting documentation was not prepared. Division staff confirmed program costs to support the draw requests were not identified, and funds were drawn to pay for ongoing expenditures.
2. Eligibility. Grant requirements state that an applicant's eligibility for services must be determined within a reasonable period of time, not to exceed 60 days after the individual has submitted an application. Exceptions to the 60-day requirement include: documentation of exceptional and unforeseen circumstances and agreement between the Division and individual to a specific time extension; or that the Division is exploring an individual's abilities, capabilities, and capacity to perform in a work situation through trial work experiences.

A report from the Division's case management system listed 450 new Vocational Rehabilitation clients between October 1, 2004 and September 30, 2005, whose eligibility determination extended beyond the 60-day requirement. Eligibility extension could not be verified for 153 clients because there was no supporting documentation to show they met exceptions for the extension. No reason was given for the lack of proper documentation.

3. Reporting. Amounts reported to the federal government are required to be accurate, complete, and in agreement with the accounting records. The *Program Cost Report* (RSA-2) showed \$16,514,000 in expenditures for the period October 2004 through September 2005. This is an annual report that shows the Basic Support Grant and the Supported Employment Grant expenditures and outstanding obligations. The *Financial Status Quarterly Report* (SF-269) showed \$13,872,000 in expenditures for the same time period, for the Basic Support Grant expenditures only. As identified in another finding, the Division allocates costs from the accounting system to report program expenditures through an allocation process that is not approved by USDE. Therefore, the amounts on both reports are not accurate, due to the improper allocation.

The USDE's Rehabilitation Services Administration reported issues similar to these in its *FY 2004 Annual Review Report*.

We recommended that the Division take steps to fully comply with applicable federal requirements by documenting all costs prior to requesting reimbursement and eligibility determination extensions, and by correcting the required reports to show proper federal costs.

**Prior Federal Findings and Questioned Costs
Prior to the Fiscal Year Ended June 30, 2006**

Current Status: **CLOSED**

1. The Division has implemented specific procedures to ensure adequate documentation for all reimbursement requests, and has as establishing a borrowing authority of \$800,000 with the Idaho Division of Financial Management to avoid cash flow problems.
2. The Division has implemented new procedures, including the creation of a critical case documentation template that specifically directs counselors to complete an electronic form that establishes a specific time frame and justification for extending eligibility determination. The system will impose an "activity due reminder" to ensure that the decision is completed within the extended time frame. Division staff were trained and familiarized with the program modification and the system was implemented. An interim quality assurance review was completed on September 30, 2006. Results have not yet been finalized.
3. The Division has corrected all reports.

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS
FISCAL YEAR 2006**

The Idaho Legislative Services Office, Legislative Audits, released 26 reports during the fiscal year 2006 audit cycle. In addition to federal findings and questioned costs, these reports contained 9 findings and recommendations to improve State financial operations. None of these findings are considered material as defined by the American Institute of Certified Public Accountants.

AGRICULTURE, DEPARTMENT OF

- 06S-1 A loan program requires duplicate applications and processes.
- 06S-2 Rangeland development loans and grants are not approved in accordance with policies.
- 06S-3 The Department does not always comply with laws and rules, and has some internal control weaknesses.

HEALTH AND WELFARE, DEPARTMENT OF

- 06S-4 Travel vouchers are not prepared as required by Idaho Code and State travel policies
- 06S-5 Internal controls and monitoring purchasing card usage needs improvement.

HISTORICAL SOCIETY, IDAHO STATE

- 06S-6 The Historical Society may not have complied with State travel and purchasing card rules and regulations.
- 06S-7 Accounting procedures do not ensure efficient and accurate reporting.
- 06S-8 Internal control over receipts is not adequate.

TREASURER, OFFICE OF THE STATE

- 06S-9 Investment amortization of discounts and premiums was not properly accounted for, resulting in erroneous distributions and asset valuations.

**STATE OF IDAHO
SINGLE AUDIT REPORT
STATE FINDINGS AND RECOMMENDATIONS
FISCAL YEAR 2006**

AGRICULTURE, DEPARTMENT OF

FINDING 06S-1

A loan program requires duplicate applications and processes. The Soil Conservation Commission (Commission), as part of the Idaho Department of Environmental Quality's (DEQ) Clean Water State Revolving Fund (CWSRF), provides low-interest loans for non-point-source soil conservation projects, such as new irrigation systems. The money the Commission loans comes from a CWSRF loan with DEQ. The Commission planned to pay the administrative costs of its loan program by issuing loans at an interest rate higher than the Commission pays on its loan with DEQ. Following are some issues related to this loan program.

1. A loan applicant must file separate loan applications with the Commission and with DEQ. The Commission is the primary contact regarding loans; however, it has no authority to approve them. DEQ has final approval of all loans related to the CWSRF. Additionally, although the Commission's loan program began in fiscal year 1999, and seven loan applications have been reviewed, processed, and approved, DEQ has funded only one. (During our audit exit meeting, the Department stated that another loan had recently been funded.)
2. In addition to the duplicate loan application and approval process, duplicate accounting is completed. Loan disbursements and loan repayments are accounted for by both the Commission and DEQ.
3. Regarding the one loan disbursed, the Commission did not have supporting documentation for the loan amount, invoices could not be matched to disbursements, and there was no indication that disbursements were reviewed by program personnel or management.
4. The Commission did not have documentation explaining why loan repayments were not made in accordance with the loan agreement.

As a result of these issues, some CWSRF loan applicants will be charged more than others to cover the duplicate administrative costs. A lack of review and management oversight is the primary reason for the lack of supporting documentation. We were told that DEQ does not manage all CWSRF loans, because it is the Department of Agriculture's responsibility to manage non-point-source polluters.

RECOMMENDATION 06S-1

We recommend that the Commission work with DEQ to eliminate duplicate processes. We also recommend that the Commission implement controls to ensure that supporting documentation is provided for all disbursements, and that loan repayments are made in accordance with loan agreements.

CORRECTIVE ACTION PLAN

The Commission agrees to the recommendations, including better documentation for overall program procedures and supporting documentation for all disbursements and loan repayments. The Commission will also work with the Department of Environmental Quality to create a streamlined procedure guide for the application and approval process.

FINDING 06S-2

Rangeland development loans and grants are not approved in accordance with policies. The Conservation Improvement Program (CIP) and the Resource Conservation and Rangeland Development Loan Program (RCRDLP) are similar, in that a conservation project can qualify for both a CIP grant (up to \$10,000, per Soil Conservation Commission policy) and a RCRDLP loan (up to \$125,000, per Commission policy). The application and approval process is the same for both CIP grants and RCRDLP loans. The following explains some issues with the programs.

1. Some CIP grant awards exceeded the \$10,000 limit. Also, in one instance, the approved grant amount did not agree with the grant amount disbursed. There was no documentation explaining why grant awards exceeded the Commission's limit or, for the one grant, why the amount disbursed did not agree with the grant amount.
2. Some RCRDLP loans exceeded the \$125,000 limit. There was no documentation explaining why the \$125,000 policy limit did not agree with the Idaho administrative law limit of \$50,000.
3. Some RCRDLP loans were not approved in accordance with Commission policy. For example, some loans were approved even though the debt-to-income ratio exceeded the amount allowed by Commission policy.
4. The Commission changed some financial information submitted by loan and grant applicants, but had no documentation that it apprised the applicants of the changes. The changes were not made consistently for all applicants, and in one instance, the reason for changing the financial information did not agree with the change.
5. Reconciliations were not completed between the loan accounting system and the State's accounting system (STARS). This reconciliation is needed to ensure that all amounts are properly entered into the loan accounting system.

As a result of these issues, the Commission is not complying with Idaho laws, following its own policies, nor ensuring that loan accounting is accurate.

We believe the reasons for these issues are lack of management oversight, staff changes, policy discrepancies, and improper guidance and training.

RECOMMENDATION 06S-2

We recommend that the Commission:

1. **Comply with its grant policy limit of \$10,000 or change its policy.**
2. **Comply with the Idaho administrative law loan limit of \$50,000 or initiate the process to change the limit.**
3. **Approve loans in accordance with its debt-to-income policy limits or change the policy.**
4. **Apprise applicants of changes to applications and make changes consistently.**
5. **Make timely reconciliations between amounts reported in the Commission's loan accounting program and STARS.**

CORRECTIVE ACTION PLAN

The Commission has modified the administrative policy of the grant and loan program to meet the needs of qualified recipients. The modifications were made to allow larger projects the same opportunities to make improvements to their systems, land and production to preserve water, soil, and environmental concerns on their land. The Commission agrees that it also needs to modify Idaho administrative law to be consistent with its necessary program changes. Reconciliations of the two loan programs to the State's accounting system (STARS) are currently only being performed annually through the closing package process. The Commission will increase the reconciliation process to quarterly (monthly, if necessary).

FINDING 06S-3

The Department does not always comply with laws and rules, and has some internal control weaknesses. The Department is a large, complex agency with many programs. Compliance with rules and regulations, as well as internal controls over the Department's larger programs, is good. Most issues pertain to some of the Department's smaller programs. Internal controls should be enhanced to reduce the risk of loss and ensure compliance with laws and rules. The following are examples of the internal control weaknesses and non-compliance:

1. The Fresh Fruit and Vegetable Division's receipting information cannot be electronically transferred from the Boise office to the pertinent regional offices' computerized records. All receipt information is sent to the regional offices and then reentered by regional office employees to update customer accounts. As a result, customer accounts are not always current, and the likelihood of data entry errors is increased.
2. The Department has several programs lacking segregation of duties. For example, in the Animal Health Division billing, receipting, and licensing functions are all performed by the same employee.
3. Idaho Code, Section 22-4407 requires an assessment on all aquaculture products sold in Idaho, unless producers write an annual letter requesting an exemption in accordance with Idaho Code, Section 22-4409. The Department has not collected all assessments, nor received annual exemption letters in accordance with Idaho Code.
4. Idaho Code, Section 25-1730 stipulates that no market charter authorizing the operation of a livestock market will be issued without a surety bond. The Department issues market charters, but could provide no documentation showing adequate bonding.
5. Because the Department's current computerized accounting system for pesticides will not allow processing registrations prior to the registration period, the Department receives payments and then holds registrations for processing until after the first of the year. As a result, some registrations are not processed for a couple of months into the new registration year, even though payments were received months earlier.
6. The Department raised annual fees for public livestock market charters from \$150 to \$200. There was no documentation to support the increase, in part because Department staff working on the program does not charge time to the program.

The causes of these weaknesses and issues of non-compliance are not readily determinable. However, these processes have been in use for many years, and there may be a lack of personnel to effectively manage and operate the many programs for which the Department is responsible.

In addition to not complying with laws and rules, these weaknesses increase the likelihood of inaccurate accounting and asset misappropriation.

RECOMMENDATION 0S6-3

We recommend that the Department make the necessary changes to enhance internal controls and ensure compliance with pertinent laws and rules.

CORRECTIVE ACTION PLAN

The Department agrees with the recommendations to enhance the internal controls connected to the animal health division and fresh fruit and vegetable program related to customer reporting. In the animal health division, functions including billing, receipting and tracking have been performed by the same staff member. This function has been performed by the same individual because of the size of these programs and the small number of transactions that occur on an annual basis. However, we agree that adequate controls should be followed when possible. The fresh fruit and vegetable receipting program is currently being rewritten to a web-based program allowing access to the same database from all regional offices.

CONTACT PERSON:

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208-332-8514

HEALTH AND WELFARE, DEPARTMENT OF

FINDING 06S-04

Travel vouchers are not prepared as required by Idaho Code and State travel policies. Idaho Code, Section 67-2006 requires employees to complete and sign a travel voucher to certify that expenses were necessary and appropriate. State travel policies also require each agency to maintain complete records and supporting documentation for all travel costs on forms provided by the State Controller's Office. If travel costs are paid for with a purchasing card, or "P-card," a complete accounting of these costs is required on the travel voucher form, including attaching appropriate receipts and invoices.

The Department does not require employees to complete travel vouchers if all costs are paid through other means, such as direct billed or P-card. We identified multiple instances of disconnected travel costs, such as hotel costs without any associated transportation or meal expenses. Without a travel voucher, no evidence is available to verify that travel costs were properly accounted for and complete, or that established requirements and limitations were met.

The potential for errors and overpayments is further increased because travel costs can be paid in several ways. For example, travel costs can be paid by direct billings from the vendor, P-card charge by the traveler or other staff, or reimbursed directly to the traveler on a travel voucher form. In some instances, travel costs are reimbursed by an outside

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source, such as a federal agency or association. The lack of a travel voucher makes it difficult to ensure that all costs are appropriate, or to establish links to all costs related to a trip and the source of funds used to pay these costs.

RECOMMENDATION 06S-4

We recommend that the Department comply with Idaho Code and State policies by requiring travelers to prepare vouchers that identify the travel itinerary, all costs associated with the trip, and the method of payment. Travel vouchers should include all details of each trip, even if the traveler is not seeking any additional reimbursement.

CORRECTIVE ACTION PLAN

The Department has developed a new travel voucher that will consolidate all expenditures related to a trip in a single document regardless of disbursement process. The procedures for use of this document will require that it be filled out and submitted even when there are no funds due the traveler. This will provide the required trip purpose and document appropriateness and approval of the expenditures made. We plan to implement this new travel voucher for all trips made after April 1, 2007.

FINDING 06S-5

Internal controls and monitoring purchasing cards (P-card) usage needs improvement. P-cards were issued to 626 Department employees during fiscal year 2006, who transacted nearly 40,000 transactions totaling \$6.9 million. Internal controls have been established that limit the overall risks, but additional improvements in controls and usage are needed.

Second level approval not documented or properly established. Department P-card policies require a second approval for all transactions and states that "in no case may a second level approver approve transactions on his or her own card." However, we identified 613 transactions during fiscal year 2006, where the second level approval was blank, and 206 transactions that were approved by the cardholder in violation of Department policies. Second level approval provides a significant internal control, and these instances indicate a serious weakness in both the internal controls and the process used to establish approval levels in the P-card system.

Purchases do not follow statewide contract requirements. We identified P-card purchases for rental cars, office supplies, and other items available under open statewide contracts that were not purchased from the contract vendors as required by Idaho Code, Section 67-5726(4). This code requires that "no officer or employee shall fail to utilize an open contract without justifiable cause for such action." These purchases tend to dilute the benefits of the statewide contracting process.

Sales taxes paid in error. Idaho Code, Section 63-3622(O)(f) exempts State agencies from paying Idaho sales tax, yet nearly 25% of P-card users had one or more transactions where sales tax was paid. Several P-card users made an effort to inform vendors of the tax-exempt status, but overall the effort to avoid paying sales tax appears to be haphazard.

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RECOMMENDATION 06S-5

We recommend that the Department strengthen internal controls and monitoring over P-card transactions by properly assigning second level approvals for all users, and notifying staff to use statewide contract vendors and avoid paying State sales tax. We also recommend that the Department periodically monitor approval levels and transactions to ensure controls and usage are appropriate.

CORRECTIVE ACTION PLAN

Second Level Approver. System changes were made by the State Controller's Office to not allow a user to approve transactions initiated by same person. We have also reviewed assigned second level approvers with program staff to ensure the person assigned properly completes the process and documents this in the P-Card system. Third level approvers have been instructed to not approve transactions without proper second level action.

Purchases Do Not Follow Statewide Contract Requirements and Sales Taxes Paid in Error. A letter has been sent to all P-card users reminding them of the required purchasing procedures and to review transactions for sales tax inclusion before approving the transactions. Any exceptions to this process will require documentation to be submitted with the P-card transmittal. This will also be reinforced to second and third level approvers to check to see that proper procedures have been followed.

CONTACT PERSON:

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208-334-5500

HISTORICAL SOCIETY, IDAHO STATE

FINDING 06S-06

The Historical Society may not have complied with State travel and purchasing card (P-card) rules and regulations. The State has policies regarding travel and the use of P-cards. These policies help ensure that accounting is proper and that travel and P-card purchases are for State business. We reviewed 10 of approximately 55 travel vouchers of the director for fiscal years 2002, 2003, 2004 and 2005. We also reviewed some monthly summaries of P-card transactions. The following was found during our review.

1. In several instances, meals were charged on the P-card, and then the same meals were reimbursed to the director, as part of the per diem, on travel vouchers.
2. The costs for renting a car and purchasing meals by the director while in Philadelphia in December 2002 were claimed on a travel voucher, although his time sheet reported he was on vacation. State travel regulations specifically state travel expenses will not be paid by the State for expenses incurred by an employee while on leave.
3. The director's P-card was used to purchase Boise State University football tickets at a cost of \$128, as payment to a speaker that the Historical Society engaged. Payment for such services is a taxable event. The Historical Society did not record the ticket purchase as 1099 reportable income as required by IRS regulations.
4. The business purpose of a trip to Providence, Rhode Island, in September 2003 was documented. However, the purpose for an

additional four days' worth of meals and car rental while in or near Philadelphia, at the State's expense, was not documented. Also, there was no documentation to show that the cost of flying to Philadelphia and then driving to Providence, instead of flying directly to Providence, was the most economical mode of travel as required by State regulations.

5. Meals that were provided at conferences were also paid to the director as part of the per diem reimbursement on travel vouchers. There was no documentation to show that the State was reimbursed for these meals, or that he did not attend conference meals.
7. P-card charges for hotels included movie rentals. Payment for movie rentals is not in compliance with State P-card regulations. The director reimbursed the State for some movie rentals, but not all.
8. There was no documentation to show that P-card purchases for staff meeting refreshments were in accordance with State travel regulations.
9. P-card payment for partial-day meals was not reported as a taxable benefit in accordance with IRS regulations.
10. Informal meetings with legislators and others at an employee's home station are not allowable expenses according to State travel regulations. The regulations also state that the State Controller's Office will interpret all meetings to be informal unless documented proof is submitted showing otherwise. The P-card was used to pay for meals with no documentation submitted to show the meetings were not informal.

The director told us that the accounting staff, on whom he relies, failed to inform him that he over-claimed and that he may not have complied with rules and regulations. As a result, he was overpaid for travel and other costs. He also explained that he did not record his time correctly when he reported vacation, and that he was visiting historical sites as part of his job duties. As a result, he claims that the travel costs reported during this time period should be allowable.

The director agreed that he was overpaid (and in one instance, was underpaid by \$7) and will make reimbursement to the State. It is difficult for us to determine how much should be reimbursed. We estimate overpayments are approximately \$700, based on review of the 10 vouchers and monthly P-card summaries. However, this amount does not include potential overpayments for travel that may not be related to State business. Also, there are another 45 travel vouchers and other P-card transactions that we did not review in detail.

RECOMMENDATION 06S-6

We recommend that the Historical Society study the State travel and P-card rules, complete a detailed review of all other travel vouchers and P-card purchases of the director, and request reimbursement for all overpayments, if any. Also, to enhance internal controls and provide oversight, we recommend that the Office of the State Board of Education review all P-card purchases and travel vouchers of the director. Furthermore, we recommend that the Historical Society

contact the State Controller's Office and determine the type of documentation that constitutes formal meetings for allowable meal expenses. Finally, the Historical Society needs to ensure proper coding and recording for taxable expenditures.

CORRECTIVE ACTION PLAN

New controls have been implemented by the fiscal office to better review and process travel reimbursements and/or P-card purchases. Proper documentation is now required for all such expenditures and travel reimbursement requests, and P-card reconciliations are being cross-referenced to ensure that all charges and expenditures are accounted for appropriately. Reimbursements for all identified over/underpayments were made by the executive director upon notification of the errors.

FINDING 06S-7

Accounting procedures do not ensure efficient and accurate reporting. During our last audit, we recommended that the Historical Society improve its accounting by eliminating multiple spreadsheets and using the State accounting system properly. However, the State accounting system is still not used properly, and additional training and better management reviews are needed to ensure accounting is proper. The following explains:

1. Although the Historical Society has incurred federal program costs, it could not provide documentation that it had submitted all reimbursement claims in accordance with federal regulations. As result, the Historical Society may not be making timely billings or complying with the grant agreements.
2. The Historical Society was not aware of some federal grants, and did not report them on its Schedule of Expenditures of Federal Awards that it submits annually to the State Controller's Office. A complete list of federal grants will help ensure the Historical Society properly accounts for grant expenditures and grant revenues, and will help ensure compliance with grant requirements.
3. The Historical Society was not aware of the need to complete a federal indirect cost proposal until we brought this to its attention. Without federal approval of this proposal, the federal government may not reimburse the Historical Society for its indirect costs.
4. The Historical Society's accounting codes are not properly used or logically established. For example, program codes should be used to account for expenditures of the Historical Society's several programs, and should not be established to record specific types of expenditures, such as travel, maintenance, and professional services. Instead of reporting travel as a program, for example, travel should be reported as a cost within a program, such as travel to the administration program.
5. The Historical Society recorded costs to a non-existent fund (Driver Training Fund). This error was not detected or corrected by the Historical Society.

Without proper accounting, management reports will be incorrect; revenue will not be billed, collected or deposited; and State and federal rules and regulations will not be complied with.

We believe the accounting is not adequate due to a lack of training and management oversight.

RECOMMENDATION 06S-7

We recommend that the Historical Society improve its accounting by obtaining needed training, utilizing the State's accounting system more effectively, and providing more oversight and reviews.

CORRECTIVE ACTION PLAN

In conjunction with the retirement of the previous Fiscal Office administrator, an effort began to improve the processes and procedures throughout the office, both prior to the arrival of the Legislative auditors and since. The staff has held several meetings with the State Controller's Office to improve its knowledge and use of the STARS system. It has eliminated the use of separate spreadsheets and other duplicate systems. The Society has contracted with an outside consultant (recommended by the State Controller's Office) to create a comprehensive process for recording, tracking and monitoring grants, as well as other systems for agency-wide accountability.

FINDING 06S-8

Internal control over receipts is not adequate. The Historical Society reports admission receipts at the Idaho Historical Museum and the Old Penitentiary of about \$90,000 a year. This amount does not appear reasonable, considering the Historical Society reports that 170,000 patrons visit just the museum each year. Also, admission receipts did not increase as expected after the Historical Society increased the admission fee from \$4 to \$5 for each adult patron at the beginning of fiscal year 2004, nor after the addition of the J. Curtis Earl exhibit at the Old Penitentiary near the beginning of fiscal year 2003. It is not possible to determine the amount of fees that should be reported, due to inadequate monitoring and accounting controls. The following explains:

1. Employees, many of whom are volunteers, use a cash register to record collections and generate receipts at both the Idaho Historical Museum and the Old Penitentiary. Good internal controls require that all collections be entered into the cash register, and that supervisors review and approve transactions.
2. Although during the last audit we discussed with the Historical Society placing large and aesthetically pleasing signs requiring patrons to obtain cash register receipts, the Historical Society did not do so. Instead, it placed very small notes that are inconspicuously taped on the counter tops.
3. In the last audit, we noted that employees can make adjustments to cash register tapes, also have custody of the cash, and, therefore, can void receipts and misappropriate funds.
4. Although with a small, primarily volunteer staff it is not always practical or cost beneficial to achieve all separations of duties and cross-checks generally included within a system of internal controls, the Historical Society can implement some controls that will not be costly.

Implementing these controls will help determine whether money is lost or misappropriated, and it will help protect employees from potential allegations of wrongdoing.

We could not determine why controls have not been implemented, nor why admission receipts did not reasonably agree with patron counts.

RECOMMENDATION 06S-8

We recommend that the Historical Society:

- 1. Post large, easily seen signs near the cash registers at the Museum and Old Penitentiary requiring patrons to obtain a cash register receipt to show proof of payment, and instruct employees to issue cash register receipts to patrons.**
- 2. Require, when possible, the daily cash register closeout to be completed by a supervisor and the cashier, and that both these employees sign the cash register tape to verify the amount collected and recorded.**
- 3. Explain voided receipts, and monitor and investigate voided excessive transactions.**
- 4. Monitor cash collections (compared with checks) and look for unusual trends or spikes in cash collections.**

CORRECTIVE ACTION PLAN

Every effort is being made to comply with the recommendations made in the report (acknowledging that limitations due to staffing levels do not always make it practical or cost beneficial to achieve all suggested segregation of duties). Large, easily seen signs are being posted close to the cash registers at both the Old Penitentiary and the Museum requiring patrons to obtain a cash register receipt. In conjunction with the State Controller's Office, training is being scheduled for all "cash handlers" at both the Old Penitentiary and the Museum to address the other recommended improvements.

CONTACT PERSON

Keith Petersen, Director
Idaho State Historical Society
208-334-2682

OFFICE OF THE STATE TREASURER

06S-9

Investment amortization of discounts and premiums was not properly accounted for, resulting in erroneous distributions and asset valuations. The Treasurer's Office manages \$2 billion within several investment pools for various state and local government entities. Investments purchased at a premium or at a discount, from face value, require specific accounting treatment or amortization to ensure that earnings are properly distributed and balances are accurately reported. The process for recording amortization and various other accounting requirements for investments are inherently complex and require specific knowledge and skills.

The Treasurer's Office used an appropriate amortization method to determine income distribution to participants. However, amortization of discounts and premiums on securities was not properly recorded. In addition, investment data provided to participants and posted on the Treasurer's Web site was misstated and did not reconcile with the Treasurer's accounting records.

We also noted that an error in establishing a participant's account was not discovered by staff for almost a year and caused earnings to be distributed in error. Investment strategies outlined in the Treasurer's policies and in Idaho Code were not always followed and could misrepresent the investment objectives to participants.

State of Idaho
State Findings and Recommendations
For Fiscal Year 2006

The Treasurer's Office does not currently have the appropriate accounting expertise available to handle or oversee the complex accounting routines associated with investment reporting. Changes in the custodial bank and a misunderstanding of the amortization process also contributed to the errors.

As a result, the carrying value of investments at June 30, 2006 was overstated by the portion of amortized premiums and discounts. In addition, income was distributed in error during the year, and investment reports to participants were misstated and did not agree with accounting records.

RECOMMENDATION 06S-9

We recommend that the Treasurer's Office recruit appropriate accounting expertise to manage the complex investment accounting functions. We also recommend that the Treasurer's Office evaluate accounting procedures, methods, and internal controls to ensure that investments are properly recorded and reported in accordance with accounting standards and Idaho Code.

CORRECTIVE ACTION PLAN

The Treasurer's Office changed accounting methodology from cash accounting to accrual accounting during fiscal year 2006. The change resulted in some unexpected results from both the Treasurer's accounting system and the custodial bank's accounting system that took some time to recognize and correct. The Treasurer's Office was aware of these issues prior to the fiscal year 2006 audit and has implemented a strategy to correct the problems with as minimal of an effect to the investment portfolio as possible.

CONTACT PERSON

Laura Steffler, Deputy Treasurer
Office of the State Treasurer
208-334-3200

**STATE OF IDAHO
SINGLE AUDIT REPORT
SCHEDULE OF PRIOR STATE
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Reports released by the Idaho Legislative Services Office, Legislative Audits, during the fiscal year 2005 audit cycle included 21 findings and recommendations to improve State operations. The fiscal year 2005 audit reports also included 21 issues that were reported during prior audit cycles that had not been fully resolved. Of the 42 findings and recommendations, 39 are considered closed. None of the remaining open findings are considered material as defined by the American Institute of Certified Public Accountants.

<u>Finding Number</u>	<u>Finding Description</u>	<u>Status</u>
<u>ADMINISTRATION, DEPARTMENT OF</u>		
01S-8	The Office of Group Insurance Management had not implemented an actuary recommended plan to eliminate the deficit between its fund balance and reserve requirements.	CLOSED
04S-2	The Division of Purchasing did not adequately monitor vendors to ensure that all required fees were submitted.	CLOSED
04S-3	The State Record Center's billing and accounting system did not provide accurate billing and financial information and, under current policies and procedures, additional space will continually be needed to store the 300 boxes of records that are added each month.	CLOSED
<u>AGRICULTURE, DEPARTMENT OF</u>		
03S-1	The Department did not always complete product label reviews for commercial feed and fertilizer products in a timely manner.	CLOSED
03S-5	The Department was not monitoring the program and financial activities of the "Agriculture in the Classroom" contract manager.	CLOSED
03S-7	Internal controls over miscellaneous receipts were inadequate.	CLOSED
<u>ARTS, IDAHO COMMISSION ON THE</u>		
05S-1	The Commission was not in compliance with federal grant cash management requirements.	CLOSED
<u>BEAN COMMISSION, IDAHO</u>		
05S-2	Some of the Commission's accounting and internal controls were inadequate.	CLOSED
<u>BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE</u>		
04S-5	The Commission needed to improve controls to ensure that all potential Social Security Administration reimbursement claims were identified and properly calculated.	CLOSED

**Schedule of Prior State Findings and Recommendations
For the Fiscal Year Ended June 30, 2006**

BUILDING SAFETY, DIVISION OF

05S-3 The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system. CLOSED

CONTROLLER, OFFICE OF THE STATE

04S-7 The Office had no formal information technology planning/steering committee, nor did it have well-defined long- and short-range information technology plans. CLOSED

04S-8 The Office had no service-level agreements with its business partners to ensure the continuity of critical business services. CLOSED

04S-10 The Office did not routinely cross-train its information technology staff. CLOSED

04S-12 The business continuity plan did not address all key internal and external controls. CLOSED

CORRECTIONAL INDUSTRIES

05S-4 Correctional Industries had no policy and, in some instances, no support for allowances and other reserves. CLOSED

CORRECTION, DEPARTMENT OF

05S-5 Parole and probation cost-of-supervision receivables were not sufficiently monitored. IN PROCESS

05S-6 The accounting for inmate special projects was not adequate, and was not sufficiently monitored. IN PROCESS

05S-7 The Department's purchasing processes were inadequate to ensure that all purchases are appropriate. CLOSED

05S-8 Accounting for travel was not in compliance with Idaho law. CLOSED

ENVIRONMENTAL QUALITY, DEPARTMENT OF

05S-9 The Department's use of temporary employees may not be in compliance with laws, rules, and regulations. CLOSED

05S-10 Billing and accounting errors caused some information to be incomplete and inaccurate. CLOSED

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

05S-11 The accounting for the Clean Water State Revolving Fund had errors and was not completed in a timely manner. CLOSED

05S-12 The accounting structure was unnecessarily cumbersome and inefficient. CLOSED

05S-13 Documentation supporting transactions was not always adequate. CLOSED

Schedule of Prior State Findings and Recommendations
For the Fiscal Year Ended June 30, 2006

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

- | | | |
|--------|--|--------|
| 05S-14 | The accounting structure for the Drinking Water State Revolving Fund was unnecessarily cumbersome and inefficient. | CLOSED |
| 05S-15 | The accounting had errors and was not completed in a timely manner. | CLOSED |

HEALTH AND WELFARE, DEPARTMENT OF

- | | | |
|--------|---|--------|
| 05S-16 | Fees for mental health services were based on poverty rates that were more than 13 years old. | OPEN |
| 05S-17 | Administrative rules for recovering certain types of Medicaid costs from parents were not enforced. | CLOSED |

HISTORICAL SOCIETY, IDAHO STATE

- | | | |
|-------|--|--------------------|
| 02S-8 | Accounting procedures did not ensure efficient and accurate reporting. | CLOSED
REPEATED |
| 02S-9 | Internal controls over receipts were not adequate. | CLOSED
REPEATED |

IDAHO STATE POLICE

- | | | |
|--------|--|--------|
| 02S-16 | Idaho State Police information technology planning procedures did not include a detailed business resumption plan. | CLOSED |
| 02S-18 | Idaho State Police had not established formal computer system development standards or applications documentation. | CLOSED |

IDAHO TRANSPORTATION DEPARTMENT

- | | | |
|--------|--|--------|
| 03S-21 | Accounting for receipts at the Division of Aeronautics needed improvement | CLOSED |
| 03S-23 | The Division of Aeronautic's accounting for courtesy cards needed improvement or the program modified. | CLOSED |

INDEPENDENT LIVING COUNCIL, IDAHO STATE

- | | | |
|--------|---|--------|
| 05S-18 | The Council's internal control policies were not consistently followed and, in some cases, needed strengthened. | CLOSED |
|--------|---|--------|

INDUSTRIAL COMMISSION, IDAHO

- | | | |
|--------|--|--------|
| 05S-19 | The Industrial Administration Fund averaged \$5.9 million in excess cash each month during fiscal year 2005. | CLOSED |
|--------|--|--------|

LIQUOR DISPENSARY, STATE

- | | | |
|--------|--|--------|
| 04S-19 | The Dispensary sold some products that it may not have legislative authority to sell. | CLOSED |
| 04S-22 | Sales tax was collected from the sale of non-liquor items, but not deposited in the Sales Tax Account. | CLOSED |

**Schedule of Prior State Findings and Recommendations
For the Fiscal Year Ended June 30, 2006**

MILITARY, DIVISION OF

04S-24	The Division's information technology structure did not allow for efficient performance and timely management information.	CLOSED
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PARKS AND RECREATION, DEPARTMENT OF

03S-29	The Department did not have a current written information technology plan and lacked written procedures for updating systems security.	CLOSED
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VOCATIONAL REHABILITATION, DIVISION OF

05S-20	The Community-Supported Employment Program and related services were not coordinated or monitored.	CLOSED
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WATER RESOURCES, DEPARTMENT OF

05S-21	Controls over the Department's energy loan program were not adequate.	CLOSED
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**STATE OF IDAHO
SINGLE AUDIT REPORT
PRIOR STATE FINDINGS AND RECOMMENDATIONS
PRIOR TO THE FISCAL YEAR 2006 AUDIT CYCLE
PRIOR TO THE FISCAL YEAR 2005 AUDIT CYCLE**

Issue Number and Status

Finding Description and Status Explanation

ADMINISTRATION, DEPARTMENT OF

01S-8

The Office of Group Insurance had not implemented an actuary recommended plan to eliminate the deficit between its fund balance and reserve requirements. For the past few years, an independent actuary recommended an increase in the Department's insurance reserves, by placing an additional \$12.8 million in reserve over ten years, as well as considering modifications of coverages and premiums.

We recommended that the Department implement a plan to meet the recommended reserves or establish a funding level that is less than the recommended reserves. The Department should inform the Legislature and the Governor of its plan.

Current Status: **CLOSED**

The Department complied with our recommendation by meeting the actuarial reserve amount.

04S-2

The Division of Purchasing did not adequately monitor vendors to ensure that all required fees were submitted. The majority of the Division's revenue comes from administrative fees remitted by private vendors. Private vendors collect the fees from State agencies by adding a surcharge (usually 1.25%) on items they sell to State agencies under certain purchasing contracts. The amount collected from vendors during fiscal year 2004 was about \$600,000. Vendors are required to collect the fees and remit them to the Department on a quarterly basis. The Division did not adequately monitor contract usage or complete other reviews to ensure that vendors were remitting the correct amounts. The Division was unable to provide a list of contracts containing the administrative fee clause, without separately reviewing each contract. We estimated that only 40% of the vendors remitted fees for each quarter in 2004. Also, some fees were incorrectly charged on non-contract purchases.

We recommended that the Division develop procedures to monitor vendor fee remittances. Specifically, the Division should consider:

- 1. Keeping a list of contracts that include an administrative fee clause.**
- 2. Developing a remittance form for vendors to complete and submit each quarter.**
- 3. Comparing the forms submitted to the list of administrative fee contracts to ensure vendors submit the form.**
- 4. Establishing dates by which the forms and remittances should be submitted.**
- 5. Testing (sampling) vendor remittances periodically to ensure accuracy.**

Current Status: **CLOSED**

The Division of Purchasing has complied with our recommended actions to improve internal controls over the vendor fee remittance process.

04S-3

The State Record Center's billing and accounting system did not provide accurate billing and financial information and, under current policies and procedures, additional space will be continually needed in order to store the 300 boxes of records that are added each month. The State Record Center provides records management services to State agencies. It stores agency records in boxes, on computer backup media, and on microfilm. The Record Center also manages the physical movement of these records to and from the State agencies and bills various fees for its services.

The billing system is manually intensive, thereby increasing the opportunity for errors to occur. As a result of this and other manually intensive processes, accounting and management reports were incorrect. In some cases, agency billing amounts did not agree with billing logs, and some agencies that should have been billed were not. The management report used to monitor fiscal year billings was incomplete, and the report detail did not reconcile with the total. Also, the invoice numbering system lacked consistency and employees lacked the necessary training to manage the interrelated computer reports.

The Record Center was accumulating and storing records that should be destroyed, converted to computer backup media or microfilm, or transferred to the State Archives. Not transferring or disposing of records required the Record Center to acquire more space. An average of 300 boxes were being added each month. While storage requirements may grow over time, the requirements could be reduced if the retention procedures and policies were modified.

We recommended that the Record Center:

- 1. Update its billing system to a more standardized, automated system and that staff be trained in its use.**
- 2. Complete supervisory reviews of accounting and management reports.**
- 3. Consider various ways to reduce the amount of stored records and, if needed, modify the record retention policy accordingly.**

Current Status: **CLOSED**

The State Records Center has updated its billing and document tracking system, and steps have been taken to properly dispose of old records.

AGRICULTURE, DEPARTMENT OF

03S-1

The Department did not always complete product label reviews for commercial feed and fertilizer products in a timely manner. Department records indicated that many companies' products were not reviewed and registered even though the companies had submitted registration fees. For example, 141 commercial feed companies paid registration fees totaling \$47,045 to register about 2,500 products that had yet to be registered. Similarly, 147 commercial fertilizer companies paid registration fees totaling \$26,990, and had yet to have their products registered.

We recommended that the Department improve its computerized registration process so that management can obtain reports necessary to monitor and complete reviews in a timely manner. We also recommended that the Department evaluate workloads and consider reassigning staff or hiring part-time help during peak registration periods.

Current Status: **CLOSED**

The Department has improved its computerized registration process and timeliness of processing product registrations.

03S-5

The Department was not monitoring the program and financial activities of the "Agriculture in the Classroom" contract manager. The Department had contracted with a private firm to administer the "Agriculture in the Classroom" program. The contractor managed the program, collected receipts, and made disbursements from a bank account. The Department did not require program reports or monitor financial activity. For example, the contractor provided supporting documentation for only \$10,000 of the program's total \$42,000 expenditures.

We recommended that the Department improve its monitoring of the contractor. Specifically, the Department should:

1. Monitor collections to ensure they are deposited. This may entail, for example, comparing the number of workshop registrants with registration fees collected.
2. Monitor disbursements to ensure they are proper by selecting transactions and reviewing the supporting documentation.
3. Require the contractor to submit reports and supporting documentation to show that program objectives are being met.
4. Transfer money in the private bank account to the State Dedicated Fund and deposit future program collections in the State Dedicated Fund.

Current Status: **CLOSED**

Although some improvements in monitoring have occurred, further improvements are needed to properly monitor this program and the contractor. We have discussed the areas where improvement is still needed with Department staff. The staff has agreed to address these issues.

03S-7

Internal controls over miscellaneous receipts were inadequate. We found control weaknesses for receipts in some of the Department's programs. Improving controls would help ensure that money is not misappropriated and that employees are protected from potential allegations of wrongdoing. The following control weaknesses needed improvement:

1. License revenue did not always agree with licenses issued.
2. Some produce dealers may be selling produce without a license since the Department had not reviewed the applications or issued licenses even though the produce dealers had paid the license fees.

3. Checks were not restrictively endorsed upon receipt. In some cases, three employees handled checks before they were restrictively endorsed.
4. Billing duties were not always adequately segregated. In some cases, one person was responsible for invoicing, receiving payments, and posting to customer accounts without another employee reviewing the work.
5. Receipts were not always deposited in a timely manner. Some receipts were held for up to one month before the Department deposited them.
6. The Department did not always follow up on past due receivables and, in some cases, the cost to process some small invoices and establish a receivable may exceed the value of the amount invoiced.

We recommended that management provide employee training that explains the need to monitor receipts, including but not limited to, agreeing license receipts to licenses issued, restrictively endorsing checks upon receipt, segregating duties, depositing receipts in a timely manner, and monitoring receivables.

Current Status: **CLOSED**

The Department has made many changes to enhance internal controls. It is restrictively endorsing checks upon receipt, reviewing reports to monitor receipts, depositing receipts in a timely manner, and monitoring receivables. However, as mentioned above, segregation of duties was an issue, and was again found in some small, immaterial programs.

BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE

04S-5

The Commission needed to improve controls to ensure that all potential Social Security Administration (SSA) reimbursement claims were identified and properly calculated. The SSA reimburses entities for the cost of rehabilitating clients who become employed for at least nine months within a 12-month period. The client must earn at least \$1,350 a month and must have received Social Security Disability Income (SSDI) prior to completing the rehabilitation program.

The reimbursement can be substantial. During the audit period, the Commission was reimbursed the following amounts: \$118,086 in fiscal year 2001 for two clients; \$79,591 in fiscal year 2002 for three clients; and \$123,994 in fiscal year 2003 for five clients. This is an average reimbursement of more than \$32,000 per client.

The Commission had no written procedures in place and relied solely on its counselors to identify clients who become employed. Although counselors have identified some clients, without reviewing its practices and developing sound procedures, all potential client reimbursement claims may not be identified, resulting in missed reimbursements to the Commission. Also, all five reimbursement claims in fiscal year 2003 were adjusted by the SSA without any follow-up by the Commission to determine why the adjustments were made.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

We recommended that the Commission review current practices and SSA regulations, explore additional avenues to identify and verify client employment, and develop written policies and procedures. The written policies and procedures should include:

1. Monitoring clients who successfully complete rehabilitation.
2. Determining an appropriate length of time to monitor clients.
3. Reviewing each reimbursement claim for accuracy.
4. Following up on SSA reimbursement adjustments.
5. Ensuring compliance with the written policies and procedures.

Current Status: **CLOSED**

The Commission is working with the Department of Health and Welfare to identify potential SSA clients, and a system has been implemented to track the clients.

CONTROLLER, OFFICE OF THE STATE

04S-7

The Office had no formal information technology (IT) planning/steering committee, nor did it have well-defined short- and long-range IT plans. IT industry standards, as referenced in COBIT, call for detailed short- and long-range IT plans, typically produced by an IT planning/steering committee. The committee should include executive level representation, senior IT and non-IT management representation, and representation from major users both internal and external to the Office. This committee should study and provide guidance for long-range IT needs of all users, understanding that the committee will not only have an internal influence, but also a statewide influence on the State's ability to accomplish its goals in an efficient and effective manner.

The Office holds weekly executive management meetings and other periodic meetings in which staff discuss various issues, including limited IT discussions. However, the Office did not have a separate IT planning/steering committee solely dedicated to aligning IT activities with the vision, mission, goals, and objectives of the Office. In addition, the IT steering committee should be responsible for producing the Office's long-range IT plan and ensuring that IT decisions make progress toward the goals stated in the long-range plan. As a result of having no IT steering committee, the Office also has no well-defined long-range IT plan.

We recommended that the Office establish a formal IT planning/steering committee dedicated specifically, but not solely, to strategic IT planning. We also recommended that the IT steering committee be charged with producing a long-range IT plan and overseeing the production of short-range IT plans, ensuring the plans align with the long-range plan.

Current Status: **CLOSED**

The Office established a formal IT planning/steering committee in September 2004 and issued a complete plan in December 2004. The committee continues to hold regular meetings.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

04S-8

The Office had no service-level agreements with its business partners to ensure the continuity of critical business services. The Division of Computer Services did not have or maintain service-level agreements with any of its internal or external customers. The Division is responsible for the principal mainframe computer and other servers operated by the State, that are used to run applications and house data needed by other organizations including, State agencies and other non-State business partners. The most notable mainframe applications include the State accounting systems system (STARS), the State payroll system (EIS), and several Health and Welfare applications. In addition to this responsibility, the Division also provides programming and development services to other internal divisions and State agencies. Clearly, many parties depend on the Office to provide these critical business services.

It is important to note that the Office also depends on other parties to provide critical business services to the Office. These services are critical to its ability to provide continuous critical business services to others. As noted, the Office receives and provides critical business services, thereby establishing the need for agreements between all related parties.

We recommended that the Office work with its major service suppliers and customers, both internal and external, to implement service-level agreements. These agreements can be either two-party agreements or three or more party agreements, as long as the objective of ensuring continuous critical business services is met.

Current Status: **CLOSED**

The Office has implemented service level and support agreements with both internal and external customers and suppliers.

04S-10

The Office did not routinely cross-train its IT staff. Industry best practices recommend cross-training IT workers. While it is assumed that some workers could perform many of the tasks of other workers, we found no established plan for cross-training IT personnel. If workers are not sufficiently cross-trained, disruptions in service can occur, as well as the loss of institutional knowledge when workers leave the agency.

Cross-training provides an important function and helps maintain a competent staff. This training is crucial when back-up personnel are needed to cover critical IT functions, especially during disasters or when workflow bottlenecks occur, requiring additional personnel in specific areas.

We recommended that the Office initiate an office-wide policy requiring some form of practical cross-training between IT functions.

Current Status: **CLOSED**

The Office has implemented a successor/cross-training program across all functions of IT, including reorganization of bureaus and staff reassignments.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

04S-12

The business continuity plan did not address all key internal and external concerns. Industry standards and good business practices recommend creating thorough, comprehensive business continuity plans that are published and tested for workability. The Office's Division of Computer Services had a detailed plan to restore computer operations in the event of an in-house mainframe system failure. Although the plan allowed for limited computer resources to be established at a remote site in a different geographical area, the plan did not fully consider the possible overall impact on the operations of the Office and other State agencies. The possible areas of impact include, but are not limited to, STARS, EIS, and computer services for employees not working at the alternate site, both inside and outside of the Office.

Outside of internal operations, the Office must coordinate with other State agencies should an emergency occur. These agencies need to know how to contact key Office personnel and how to reestablish system connections to STARS, EIS, several Health and Welfare applications, and any other office system necessary for each to carry out their responsibilities.

We recommended that the Office review its overall operations and adjust its business continuity plan to address the needs and requirements of all affected parties.

Current Status: **CLOSED**

The Office hired an expert in business community planning to address the business continuity plan. The plan now addresses all known internal and external needs for the office.

HISTORICAL SOCIETY, IDAHO STATE

02S-8

Accounting procedures did not ensure efficient and accurate reporting. The Historical Society did not fully utilize the State Accounting and Reporting System (STARS) for grant accounting, but used a series of spreadsheets to prepare grant reports. Posting information to the spreadsheets results in errors and is not efficient.

We recommended that the Historical Society improve its accounting by restructuring the coding scheme to more effectively use STARS and eliminate the use of spreadsheets.

Current Status: **CLOSED**
Repeated as 06S-7

There has been a change in the personnel in the fiscal office, and the new financial specialist is striving to get the accounting procedures up to par. There has been contact with the State Controller's Office to gain information and training about STARS to balance the budget on a monthly basis, as well as produce forecasts, trends, and other requested reports as needed.

02S-9

Internal controls over receipts were not adequate. The Historical Society uses cash registers to record admission receipts at the Historical Museum and the Old Penitentiary. The receipts totaled more than \$80,000 during fiscal year 2002. Controls for using cash registers were not adequate because there was no assurance that all collections were entered into the

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

cash registers, duties were not segregated, and supervisors did not review and approve voided transactions. In addition, an electronic counter at the entrance to the museum exists, but was not used to reconcile the number of daily visitors to the amount of daily receipts.

We recommended that the Society improve internal controls over receipts by implementing the following steps:

1. **Post a sign near the entrance of the Museum and the Old Penitentiary requesting patrons to obtain a cash register receipt, and instruct employees to issue cash register receipts to all patrons.**
2. **Segregate duties by requiring that daily close-out of cash registers be completed by a supervisor and the cashier, and that both these employees sign the cash register tape to verify the amount collected and recorded.**
3. **Explain each voided transaction and monitor and investigate those voided transactions that are excessive.**
4. **Monitor cash collections (versus checks) and look for unusual trends or spikes in cash collection amounts.**
5. **Use the electronic counter at the Museum and compare visitor counts to fees collected.**

Current Status: **CLOSED**
Repeated as 06S-8

Management is striving to correct the situations at the Museum and Old Penitentiary. Two people now balance the money at the Museum. Volunteers and staff at the Old Penitentiary manage money collections, but the cash register is balanced by the interpretive specialist. The fiscal office now requests that a form be completed explaining voided transactions. It also monitors daily cash collections on a spreadsheet that lists all forms of money collected by each entity, making it convenient to identify unusual trends and spikes in cash collections.

IDAHO STATE POLICE

02S-16

Idaho State Police (ISP) IT planning procedures did not include a detailed business resumption plan. ISP's computer information systems are widely used and operate on a 24-hour-a-day basis. ISP did not have a written plan in place detailing how to resume operations in a relatively short period of time in case of a disaster. Disaster recovery planning in today's technology environment requires a level of detail to address disruptive events caused by natural disasters, as well as those caused by human error, short- and long-term power disruptions, computer viruses, failure of specific hardware equipment, and other events that could lead to loss of data or disruption of services and network access.

We recommended that ISP develop a written, detailed, and consolidated business resumption plan specific to IT, properly train employees, and keep the plan in a safe and secure location.

Current Status: **CLOSED**

ISP has worked on business and disaster recovery planning using outside consultants. Staff has conferred with all levels of management and advisory boards to formulate recovery solutions. These solutions should help facilitate recovery from most disruptive events.

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02S-18

ISP had not established formal computer system development standards or application documentation. Computer system development standards and application documentation are written support explaining how a system works, guidelines for developing computer systems, and written backup of the system software programs. Formalized standards and documentation need to be maintained to prevent losing critical information caused by staff turnover. This information is also beneficial when outside contractors are used for application development or programming.

We recommended that ISP establish formal written documentation of system development standards and existing program applications, and that ISP keep this documentation current as new projects are developed.

Current Status: **CLOSED**

ISP has developed a workable policy to manage system changes, and has implemented an automated system that helps track changes for newer applications. Written technical and user documentation has not been completed for all computer systems; however, staff is providing adequate system training to employees. Written documentation is being completed, with the goal being full documentation. However, more funding and personnel may be required to complete the task to achieve highest industry standards.

IDAHO TRANSPORTATION DEPARTMENT

03S-21

Accounting for receipts at the Division of Aeronautics needed improvement. The Department's Division of Aeronautics could improve accounting for receipts by billing and depositing collections in a timely manner, making reconciliations to ensure all amounts are properly collected, and monitoring and collecting receivables. The following explains:

1. The Division did not make regular or timely requests for federal funds from the Federal Aviation Administration (FAA). For example, the Division accumulated almost \$130,000 in eligible costs for more than a year before making a request, and in another instance, more than \$233,000 was accumulated for six months before making a request.
2. The Division sometimes held receipts for almost a month before making a deposit.
3. The Division did not document its attempts to collect in-State air transportation billings that had been outstanding for more than a year.
4. The Division did not reconcile conference registration fee collections with the amount deposited, and could not explain why some registration fee remittances were not recorded as collected.

We recommended that the Division of Aeronautics improve internal controls and accounting procedures for receipts by billing and depositing all money in a timely manner, following up on past-due accounts, and reconciling fees collected with amounts deposited.

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Current Status: **CLOSED**

The Division implemented a policy to request reimbursement from the federal government in a timely manner and is making deposits in accordance with Idaho Code.

03S-23

The Division of Aeronautics' accounting for courtesy cars needed improvement or the program modified. The Division owns about 20 courtesy cars used to provide ground transportation for visitors when other transportation is unavailable or limited. The airports maintain the vehicles, collect user fees of about \$10,000 a year, and provide monthly usage and accounting reports to the Division. Some accounting problems with the program were:

1. Courtesy car money had been stolen and, in some instances, cash shortages occurred and went undetected by the Division.
2. Monthly airport reports were not accurate. Revenue amounts reported did not agree with amounts deposited, expenditures were not recorded on the financial reports, and beginning cash balances did not agree with the prior report's ending cash balances.
3. Some airports did not reconcile the joint State and airport courtesy car checking account in a timely manner, and some airports did not maintain a check register.
4. Some airports deposited receipts to personal accounts before transferring them to courtesy car checking accounts.

We recommended that the Division consider modifying the courtesy car program. Specifically, the Division should consider transferring the vehicles to the local airports and have the airports administer the courtesy car program. Otherwise, the Division should train the program manager to effectively monitor the financial operations of the program, and perform periodic reviews of the local programs to ensure adequate internal controls and accurate accounting.

Current Status: **CLOSED**

The Division has complied with our recommendation by modifying the courtesy car program.

LIQUOR DISPENSARY, STATE

04S-19

The Dispensary sold some products that it may not have legislative authority to sell. The Dispensary has the authority to permit, license, inspect, and regulate the manufacture, importation, transportation, storage, sale and delivery of alcoholic liquor for purposes permitted under Idaho Code, Section 23-203. Alcoholic liquor is defined as any liquid or solid containing alcohol, spirits, wine, and any liquid or solid containing more than 4% percent of alcohol by weight.

The Dispensary was selling items not included in the definition of alcoholic liquor, such as garnishes, non-alcoholic mixers, cocktail recipe books, bar tools, and Idaho wines in direct competition with retail stores.

Idaho Code, Section 23-203(e) allows the Dispensary to acquire, buy, or lease personal property necessary and convenient for the conduct of its business. Idaho Code, Section 23-203(g) gives the Dispensary general

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powers to do all things necessary and incidental to its powers and duties under this act. The Dispensary believed that these two codes allowed it to sell items other than alcoholic liquor. Although the sale of non-alcoholic items was less than 1% of total sales, we believed the Dispensary was not authorized to sell those products.

We recommended that the Dispensary request an opinion from the Idaho Attorney General's Office to determine whether it has the authority to sell non-alcoholic items in the State-run stores.

Current Status: **CLOSED**

House bill 435 passed during the 2006 legislative session, amending the Idaho Code to allow the Dispensary to sell non-alcoholic products.

04S-22

Sales tax was collected from the sale of non-alcoholic items, but not deposited in the State Sales Tax Account. The Dispensary collected State sales tax on all sales through its retail stores. The sales tax was deposited in the Dispensary's liquor account and included in the annual distributions. This is in accordance with Idaho Code, Section 63-3638A, which states that the sales tax collected on liquor sales is to be credited to the liquor account and not become part of the State sales tax account.

The Dispensary sells many non-alcoholic items through its retail stores. These items do not meet the definition of alcoholic liquor as defined in Idaho Code, Section 23-105. The sales tax collected on the sale of these items was also deposited in the Dispensary's liquor account. During fiscal year 2004, the sale of non-alcoholic products generated approximately \$34,000 in sales tax revenue.

The Dispensary had been depositing the sales tax collected on non-alcoholic items into the liquor account without realizing that Idaho Code is based on the sale of alcoholic liquor only. If the Dispensary determines that the sale of non-alcoholic items is allowed by Idaho Code, it should deposit the sales tax collected on these items in the State sales tax account, not in the liquor account.

We recommended that the sales tax collected on the sale of non-liquor items be remitted to the appropriate account, as required by Idaho Code.

Current Status: **CLOSED**

House bill 435 passed during the 2006 legislative session, amending the Idaho Code to allow the deposit of sales revenue into the Liquor Fund.

MILITARY, DIVISION OF

04S-24

The Division's information technology (IT) organizational structure did not allow for efficient performance or timely management information. Efficient IT organizations are structured to identify risks, prioritize projects, respond to needs in a timely manner, document IT applications, ensure that systems are secure, and monitor goals and objectives. Not all IT personnel report to the chief technology officer. Some staff are directed and monitored by program personnel. The Division's organizational structure may have contribute to the following issues:

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1. The Division did not have procedures to identify IT risks or prioritize projects.
2. The Division did not have effective procedures to ensure that program changes or modifications were properly identified or completed, and there were no procedures in place to request system changes or corrections.
3. The Division did not have procedures to ensure that applications were adequately documented.
4. The Division's IT systems security needed improvement.

We recommended that the Division review its organizational structure and consider having its chief technology officer direct and monitor the activities of all IT staff, as well as consider the current workload of its IT section and act accordingly. We also recommended that the Division establish formal written policies to identify risk areas, prioritize projects, modify or correct current applications, document program applications developed by members of its staff, and ensure that computer operations are secure.

Current Status: **CLOSED**

The IT function has been centralized under the direction of the Division's chief technology officer. The Division is also working on formal written policies to identify risk and prioritize projects.

PARKS AND RECREATION, DEPARTMENT OF

03S-29

The Department did not have a current written IT plan and lacked written procedures for updating systems security. The Department's IT needs were rapidly changing and required constant monitoring and maintenance. The following areas needed improvement:

1. The Department did not have a current written short- or long-term IT plan that supported the Department's strategic business plan. The last plan was prepared in 1998, and most of the items identified in that plan have been completed. An updated plan should be prepared annually and should support the Department's business plan to achieve departmental goals and objectives.
2. The Department did not have a detailed, written business resumption plan in place to use as a guide to resume operations, within a relatively short period of time, in case of a disaster or system failure. Disaster recovery planning requires a sufficient level of detail to address both short- and long-term disruptive events such as power failures, computer viruses, and hardware/software failure that could lead to the loss of data and disruption of services.
3. The Department did not have written procedures in place to update computer systems with the latest service packs and security updates for the operating systems and applications in use. Checking and installing current updates and service packs reduces the vulnerability of systems to viruses and attacks.

We recommended that the Department develop written plans and procedures, including:

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1. Detailed short- and long-term IT plans that support the Department's strategic business plan.
2. Consolidated business resumption and recovery plans and proper training for employees who will implement the plans.
3. Procedures to update the system with the latest service packs and product fixes as they become available.

Current Status: **CLOSED**

The Department completed a written short- and long-term IT plan that supports its strategic business plan and addresses technological advances the Department expects to implement in the next five years. Additionally, it has developed a written detailed business resumption and recovery plan in the event of system failures, and developed a policy for updating computer systems with the latest security updates once they have been tested.

FISCAL YEAR 2005 AUDIT CYCLE

Issue Number and Status

Finding Description and Status Explanation

ARTS, IDAHO COMMISSION ON THE

05S-1

The Commission was not in compliance with federal grant cash management requirements. Cash advances were not expended in accordance with federal cash management requirements of the National Endowment of the Arts (NEA) grant. NEA requires cash advances to reflect current expenditures or funds must be disbursed immediately upon receipt. Some of the advanced funds were not spent until six months after the initial drawdown of funds.

We recommended that the Commission's staff receive additional grant management training and, in the future, comply with all grant restrictions.

Current Status: **CLOSED**

Commission staff completed two interactive training CD's in November 2005. The topics covered cash management and OMB's compliance supplement to get ready for the audit. Commission staff now has a better understanding of the requirements relating to grant management and the audit concerns.

Commission staff is taking significant steps to ensure cash draws are in compliance with NEA general grant terms and conditions. They are implementing a process of using past expenditure information to forecast current cash needs. Cash draws will be completed approximately every 30 days.

BEAN COMMISSION, IDAHO

05S-2

Some of the Commission's accounting and internal controls were inadequate. The Commission had five separate bank accounts. Utilizing multiple checking accounts creates errors and confusion, and is unnecessarily time consuming. The Commission also withdrew about \$40 to purchase office supplies, but was unable to supply documentation to

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support the purchases; recorded staff budgeted and actual travel expenditures as \$0 on one budget report and as \$450 and \$560, respectively, on another budget report; and issued some checks with only one Commission officer's signature, instead of two signatures as required by Idaho Code.

We recommended that the Commission eliminate all but one checking account, use the accounting system to account for activities, and make other needed accounting and internal control improvements.

Current Status: **CLOSED**

The Commission has consolidated its checking accounts to a single account and implemented reconciliations and review procedures. The Commission is also more fully utilizing its accounting system, and is working with the Idaho Legislature to change code sections requiring two signatures to a single signature.

BUILDING SAFETY, DIVISION OF

05S-3

The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system. The Division entered into a contract to enhance its computerized receipting system without obtaining bids as required by State rules. The contract did not cover all the work completed; did not specify the expected deliverables; and did not include other items, such as a retainage clause and penalties for lack of performance. Also, the Division did not document project specifications or develop a work plan to include processes for managing project changes, troubleshooting issues, or formal training. Good contract and project management procedures protect the Division and help ensure that the work is completed in a timely manner.

We recommended that before proceeding with new information technology projects, the Division document project specifications, comply with State contracting rules, and ensure that contracts contain provisions for all deliverables. We also recommended that the Division ensure there are retainage and penalty clauses, and develop a project work plan that includes processes to manage troubleshooting, project changes, and formal training.

Current Status: **CLOSED**

The Division has contacted the State Division of Purchasing to ensure that all future acquisitions and computer enhancement projects are completed in accordance with State purchasing rules and laws. The Division also had an in-depth review of its new computerized receipting system completed by an independent third party, who found that there are critical security weaknesses and that standard computer programming conventions were not followed. Critical weaknesses are currently being addressed and the Division has placed its contract with the original vendor on hold. The Division is currently working with computer programmers from the Department of Commerce and Labor to fix critical errors caused by inadequate design and programming.

CORRECTIONAL INDUSTRIES

05S-4

Correctional Industries (CI) had no policy and, in some instances, no support for allowances and other reserves. CI maintains an allowance for doubtful accounts receivable, an allowance for obsolete materials and finished goods inventory, and a warranty and showroom reserve. These allowances are estimates based on past activities and are recorded to properly reflect all expenses that result from CI's operations.

The warranty and showroom reserve amounts that CI reported at the end of fiscal years 2004 and 2005 had not changed, although sales had increased significantly during fiscal year 2005. Instead, CI recorded warranty expense as the actual costs were incurred. As a result, warranty expenses may have been overstated because warranty expense was recorded when the reserve was established and then again when the costs were incurred. Other allowances, such as the allowance for doubtful accounts receivable, could not be recalculated or explained.

Proper accounting for allowances and reserves would help ensure expenses were recorded against the revenue the expenses generated. This finding and recommendation was included as part of the fiscal year 2002 and 2003 audit report. We believe CI had not yet fully addressed this prior finding due to staff turnover and shortages.

We recommended that CI review its accounting for allowances and reserves, and develop a policy for determining all allowances and reserves. The policy should explain when the allowances will be increased and decreased, as well as the basis for these increases and decreases. Compliance with its policy should be regularly monitored.

Current Status: **CLOSED**

CI has developed policies for its allowances and reserves, and is properly accounting for both. It is also monitoring and evaluating the allowances and reserves on an annual basis according to its policies.

CORRECTION, DEPARTMENT OF

05S-5

Parole and probation cost-of-supervision (COS) receivables were not sufficiently monitored. The Board of Correction, in accordance with the Idaho Code, requires parolees and probationers to pay up to \$40 a month to defray some of the costs of their supervision. Each offender account is coded as "normal," meaning the offender is working and has the ability to pay, or is coded as "unable to pay" for various reasons. According to the Offender Management System aging reports, the dollar amount of normal COS receivables four or more months past due was \$410,000 as of May 5, 2005. The following provides some detail about these receivables.

1. Some districts have several offenders with balances exceeding \$1,000. For example, one offender owes about \$1,900 and has not made a payment since January 2001, and another offender owing \$2,215 has not made a payment since August 2000.

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2. Some individual parole and probation officers have large caseload receivables. One officer has receivables exceeding \$12,000; another has receivables of \$18,000.

This may be due to some parole and probation officers simply not managing their offender collections. Perhaps some accounts that are coded as "normal" should be coded as "unable to pay." Also, staff reported that some staff members were unaware that there were aging reports that could be used to identify and monitor past-due receivables by district, parole and probation officer, collection code, or other criteria.

In addition to not complying with Department policies, failure to collect receivables may result in reduced revenue to the Department.

We recommended that the Department utilize its offender management system aging reports to identify, collect, and resolve outstanding balances. The reports should also be used to monitor collections by parole and probation officers.

Current Status: **IN PROCESS**

The Department is currently revising its offender management system for COS and is meeting with other parole and probation staff to determine how to better address the identification and collection of COS receivables.

05S-6

The accounting for inmate special projects was not adequate, and was not sufficiently monitored. The Department contracts with nonprofits and governmental entities to use inmate labor for work projects such as roadside trash pickup, recreational development, and soil conservation. Annual revenue from these projects is about \$3.5 million a year.

In a prior audit report the inmate labor tracking system that the Department developed to collect and maintain information for projects was discussed. The Department had decided to replace the system; however, the new system would not be fully implemented for some time. As such, some issues discussed in the prior audit report were still unresolved, such as:

1. Not all institutions utilized the inmate labor tracking system. One institution did not use the system at all, and others only used certain features. For a short time period, billings from one institution not using the inmate labor tracking system directed customers to send payments to an address that the Department had vacated in 1998. Payments of \$114,562 and \$78,856 were sent to this old address.
2. The inmate labor tracking system did not generate useful management reports. For instance, the system did not generate lists of all contracts and projects undertaken, all invoices prepared in a particular year, or open and closed projects.
3. Cost rates were used to justify fees charged to customers and to plan work projects. However, these cost rates were not adequately supported. Although the Department maintains lists of small tools and equipment used on inmate projects, these lists

did not show the cost or expected life span. The Department could not prepare cost rates without this information. Also, cost rates varied from one facility to another.

Based on discussions with staff members, we believe employee turnover is the primary reason problems noted in the prior audit report were not addressed sooner.

As a result of the inmate labor tracking system's inadequacies, the Department did not have the information needed to sufficiently monitor costs, prepare accurate client billings, negotiate fee rates, manage work projects, or comply with Department directives. An improved system would provide better accounting information that may help alleviate disagreements with clients about billings, help ensure the timely payment of receivables, and improve the overall operating efficiency.

We recommended that the Department continue its development and implementation of a replacement project accounting system. We also recommended that the Department:

- 1. Require all institutions to utilize the new project accounting system.**
- 2. Ensure the new system can generate useful management reports and that they are used to monitor projects.**
- 3. Establish a standard set of cost rates for equipment used. Documentation should be retained to support the cost rates, and the rates should be periodically reviewed.**

Current Status: **IN PROCESS**

The Department is still in the process of revising its special projects system.

05S-7

The Department's purchasing processes were inadequate to ensure that all purchases are appropriate. The Department had assigned approximately 450 purchasing cards (P-cards) to employees. P-cards are State credit cards used by Department employees to transact Department business and pay for travel-related expenses. Although the Department had made some improvements in accounting for P-card purchases, further improvements were needed, such as:

1. A number of transactions had gone more than six months without being verified and approved. Verification and approval help ensure that the transactions are for valid State business, and enable P-card expenditures to be charged to the proper Department function.
2. A former Department employee was still shown as active in the P-card system and had approval privileges. These privileges could enable the former employee to approve transactions for payment. Furthermore, current employees could use the former employee's log-in to approve transactions for payment.
3. The Department did not have cardholder agreements on file for all cardholders. These agreements communicate to the cardholder their responsibility with regard to P-card use. The agreement also assigns accountability for charges made on the P-card by the cardholder.

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4. Some fiscal year 2004 P-card transactions were not properly documented. Purchases with inadequate documentation explaining why they were made and what they were for included \$74 in food purchases and \$102 in merchandise from a toy and hobby store.

Good accounting and documentation help communicate employee responsibility and ensure that funds are not misappropriated. Also, timely verification and approval of expenditures helps ensure supporting documentation is not lost and that expenditures are properly reported.

We recommended that the Department strengthen controls over P-card transactions by:

1. Enforcing the requirements to verify and approve transactions in the P-card system in a timely manner.
2. Ensuring that only current P-card users have access to the Department's P-card system, and that all cards listed as active by the bank are issued to current employees only.
3. Ensuring that cardholder agreements are on file for all cardholders.
4. Ensuring that P-card purchases are documented by providing the receipt and an explanation of what the goods were used for.

Current Status: **CLOSED**

The Department complied with our recommendations to strengthen its purchasing card controls and processes by implementing the State Controller's automated system and ensuring verification and approval of P-card transactions. The Department also ensures P-card transactions are supported with receipts, has limited the access to the system, and maintains central files for cardholder agreements.

05S-8

Accounting for travel was not in compliance with Idaho law. The Department should ensure compliance with the Idaho Code and State travel regulations, account for travel costs in a timely manner, and ensure accurate accounting. The following explains:

1. Idaho Code, Section 67-2006 requires that travel vouchers be completed. Department employees did not always complete travel vouchers. When a traveler did prepare a travel voucher, it often did not match supporting receipts or did not contain all information such as travel authorization, mode and travel route, lodging, meal costs, and other miscellaneous information as required by travel regulations.
2. Accounting for travel was not always completed in a timely manner. For example, one employee did not submit travel documentation until one month after the travel had ended, and only did so at the request of the fiscal staff. Another employee with multiple trips during July and August did not submit documentation until September.
3. Although employees are required to complete travel vouchers, in many instances, the Department's fiscal staff attempted to complete the necessary reconciliations to determine the amounts owed to or from employees. Obtaining documentation for travel

**Prior State Findings and Recommendations
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expenditures and "piecing" the total trip cost and any over- or under-reimbursement due from or to the employee is burdensome to the fiscal staff. In some instances, the total trip costs were not reported and the amount reimbursed may have been incorrect.

In addition to complying with the Idaho Code, Section 67-2006, travel vouchers help ensure expenditures incurred are for valid Department business.

We recommended that the Department comply with Idaho Code and improve accounting by:

1. **Submitting signed and approved travel vouchers with supporting documentation in a timely manner.**
2. **Recording all travel costs on the travel voucher (including costs and advances paid by P-cards).**
3. **Monitoring travel expenditures to ensure they are valid Department expenditures and are in accordance with travel regulations.**

Current Status: **CLOSED**

The Department has complied with our recommendations to bring its travel accounting policies into compliance with Idaho law. In addition, further fiscal staff revisions will enhance the efficiency of processing travel documents in a more timely manner.

ENVIRONMENTAL QUALITY, DEPARTMENT OF

05S-9

The Department's use of temporary employees may not be in compliance with laws, rules, and regulations. Department staff stated they did not have enough full-time positions to complete their work. As a result, the Department hired temporary employees for eight months of the year, and then paid a temporary employment agency to keep these same employees at the same job the remaining four months of the year.

Although we understand the Department's difficult position, using temporary employees in this manner increases the risk of a potential lawsuit in which employees may contend that they are actually full-time employees and, as such, should receive all the benefits of full-time employees. Additionally, using temporary employees in this manner may not be in accordance with State policies or Internal Revenue Service regulations relating to employer/employee status, or State administrative rules regarding proper use of consultants and persons employed under independent contracts. The Idaho Division of Human Resources' deputy attorney general agreed that this practice may not be in accordance with rules and regulations.

We recommended that the Department seek assistance from the Division of Financial Management, the Division of Human Resources, and the State Controller's Office to resolve this issue.

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Current Status: **CLOSED**

Members of the Department's staff stated that they intend to comply with the State's policy. When followed up, we found no instances in which the Department hired temporary employees for periods longer than prescribed by State policy.

05S-10

Billing and accounting errors caused some information to be incomplete and inaccurate. The Department's accounting was good considering the large amount of accounting required for its many different programs. We did not find many accounting errors, but some we did find, indicate internal controls in the permit billing system could be improved, as explained below:

1. The Department incorrectly provided a \$3,000 credit to a public water system. It issued the credit memo, believing that the water system had made 13 payments instead of 12 in the prior year. Although 13 payments were recorded, one was the result of an insufficiently funded check, so only 12 payments were actually made. In another instance, the Department incorrectly posted a payment to the wrong public water system account.
2. The Department did not collect air permit fees in compliance with administrative rules. For example, the Department did not charge \$10,000 for changes made to a tier II permit. Although administrative rules exempt fees for some changes, the changes made to this permit were not exempt.
3. The Department had not billed or collected \$10,000 for a permit issued approximately nine months earlier. A reconciliation of permit changes and issuances with billings may have found this error.

In some instances, the errors were simply mistakes. In other instances, the errors were caused by a lack of communication or a breakdown in procedures. Because of these errors, the Department had not properly collected revenue and may not have been in compliance with rules and regulations.

We recommended that the Department:

1. Review postings to customer accounts to ensure they were correct.
2. Ensure that it complied with administrative laws regarding the issuance of air permits. If the Department believes the rules and fees are unnecessarily burdensome on the companies, we recommended that the Department initiate appropriate changes. We also recommended that the Department reconcile permit issuances and changes to billings, and bill the \$10,000 that it has not yet collected for the air permit.

Current Status: **CLOSED**

The Department billed and received the \$10,000 and reviews and documents all changes to public water invoices.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – CLEAN WATER STATE REVOLVING FUND

05S-11

The accounting for the Clean Water State Revolving Fund (CWSRF) had errors and was not completed in a timely manner. In a prior audit, we noted several accounting errors, and financial statements that were not completed in a timely manner. Similar errors were noted during this audit, and again the financial statements were not completed in a timely manner.

1. Net assets reported on the Statement of Net Assets (balance sheet) did not agree with net assets reported on the Statement of Revenues, Expenses, and Changes in Net Assets (income statement). These amounts should agree; however, they differed by \$12 million.
2. Cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet and income statement. In order to reconcile the cash, loan receivables were decreased by \$102,000, and interest earned was decreased by \$54,000. The Department could not explain the errors or why these adjustments were necessary.
3. Some financial statement amounts could not be reconciled with supporting documentation. For example, loan interest received in STARS did not agree with loan interest received in the loan accounting system.
4. Loan disbursements in the amount of \$900,000 were incorrectly made from another fund instead of from the CWSRF. The Department was unaware of these incorrect disbursements.
5. At the request of the Department, an entity made a loan repayment that was \$10,000 less than shown on the loan repayment schedule. There was no documentation to support this request.
6. Interest was miscalculated, and there were incorrect allocations of borrower repayments between principal and interest.

These errors could lead to entities over- or underpaying loan amounts, incorrect management decisions, noncompliance with loan agreements, and misappropriation of assets.

We believe these errors were caused by one employee completing accounting transactions with little oversight or review. Also, the lack of a fully integrated and automated accounting system may contribute to these errors.

We recommended that the Department:

1. Ensure that more than one person is trained to complete accounting transactions.
2. Consider purchasing a new integrated accounting system.
3. Generate accounting reports in a timely manner.
4. Enhance internal controls by completing timely reconciliations and management reviews.

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Current Status: **CLOSED**

The Department has cross-trained employees to complete the accounting. Management also ensures that reconciliations are completed and that the accounting is correct. The Department is also in the final stages of implementing a new accounting system.

05S-12

The accounting structure was unnecessarily cumbersome and inefficient. As reported in a previous audit, the Department used three funds: one to record loan repayments; a second to record loan disbursements (this fund had a large negative cash balance); and a third to account for miscellaneous transactions, such as recording interest earnings. Accounting for all activities in one fund would allow more timely and efficient reconciliations, and help ensure that all transactions are properly reported in accordance with governmental accounting standards.

Additionally, the Department unnecessarily used separate program codes for different loan transactions types, causing more difficult accounting and reconciliations, weakening internal controls.

Staff reported that using multiple funds and program codes was a carryover from when the DEQ was part of the State Department of Health and Welfare. Staff agreed that one fund would suffice, and that the Department may have used program codes that were not necessary for accurate and efficient accounting.

We recommended that the Department eliminate unnecessary funds and program codes.

Current Status: **CLOSED**

The Department now uses one fund and has eliminated many program codes.

05S-13

Documentation supporting transactions was not always adequate. The Department could not provide adequate documentation to support some transactions (also an issue in the prior audit). This lack of documentation placed the Department at risk of a local entity contending that it did not agree to the transactions. Good documentation would protect employees from potential wrongdoing allegations and improve internal controls. Documentation could be improved in the following areas:

1. The Department re-amortized loans after some entities made prepayments. However, there were no addendums to the loan agreements or correspondence in the loan files to indicate that all parties agreed to the re-amortizations or that they were approved by management.
2. Loan repayment schedules were maintained separately from the loan agreements, and were not readily available to staff members. This may be a contributing factor to the Department having requested an entity pay an incorrect amount.
3. Unscheduled or early payments had been posted inconsistently, which could result in some entities paying more or less than others, and could also lead to misunderstandings and disagreements. Furthermore, the recording of payments was not always in accordance with the loan agreements.

4. In some instances, amounts recorded on loan receivable accounts did not agree with amounts reported on repayment schedules or loan closing documents. There was no documentation in the files to explain these differences.

We recommended that the Department maintain adequate documentation for all decisions that affect loans or transactions related to loans. The loan files should include:

1. Documentation supporting loan re-amortizations. This documentation should include management's approval; the local entity's concurrence; and other documentation that the Department may consider necessary, such as correspondence memorandums or addendums to loan agreements.
2. Documentation showing current loan repayment schedules, thus allowing all parties to understand what is due to the CWSRF for each outstanding loan.
3. Documentation showing compliance with the loan agreement or Department policy for recording early or non-scheduled repayments, to help ensure consistent application of loan payments.
4. Documentation explaining why the loan amount reported on the loan detail report did not agree with the loan amortization schedule.

Current Status: **CLOSED**

The Department has updated loan policies and agreements to ensure all transactions are properly supported.

ENVIRONMENTAL QUALITY, DEPARTMENT OF – DRINKING WATER STATE REVOLVING FUND

05S-14

The accounting structure for the Drinking Water State Revolving Fund (DWSRF) was unnecessarily cumbersome and inefficient. The prior audit report noted that the Department used three separate funds to account for the DWSRF's activities when one would suffice. The Department was still using three funds: one fund records loan repayments; a second fund, which had a large negative cash balance, records loan disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Accounting for all DWSRF activities in one fund would allow easier, more efficient reconciliations and help ensure that all transactions were properly reported in accordance with governmental accounting standards.

Also, the Department unnecessarily used separate program codes for different loan transactions types, leading to loans having multiple program codes, making reconciliations and accounting more difficult, and ultimately weakening internal controls.

We were told that the using multiple funds and program codes was a carryover from when the Department was part of the Department of Health and Welfare. Staff agreed that one fund would suffice. Also, the Department had program codes that were not necessary for accurate and efficient accounting.

We recommend that the Department eliminate unnecessary funds and program codes.

Current Status: **CLOSED**

The Department eliminated the unnecessary funds, and now uses one fund for the State matching fund appropriation and one for all other transactions. The Department also reviewed and eliminated many program codes.

05S-15

The accounting had errors and was not completed in a timely manner. In the prior audit report, we noted several accounting errors and financial statements that were not completed in a timely manner. Again, although we contacted the Department and requested that the financial statements be completed before we began the audit, they were not. When we did receive the financial statements, we again found errors. For example:

1. Operating expenses, as reported on the income statement, were under-reported by about \$2 million.
2. The balance sheet only reported assets and liabilities, and did not report net assets. We determined, after calculating net assets, that the net assets did not agree with net assets reported on the income statement. These should agree.
3. The cash flow from operating activities, as recorded on the Statement of Cash Flows, was about \$200,000 less than it should have been and could not be reconciled to operating income.
4. Some financial statement amounts did not agree with supporting documentation. For example, loan interest received in STARS did not agree with loan interest received in the loan accounting system.
5. Many cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet, and income statement and adjustments were necessary.

These errors could lead to entities over- or underpaying loan amounts, incorrect management decisions, non-compliance with loan agreements, and misappropriation of assets.

We believe these errors were caused by one employee having complete control over the accounting process, with little oversight or review. Also, the lack of a fully integrated and automated accounting system may have contributed to some of these errors.

We recommended that the Department:

1. **Ensure that more than one person is trained to complete the accounting, and that management provide oversight and review in a timely manner.**
2. **Consider purchasing a new integrated accounting system.**
3. **Generate accounting reports in a timely manner.**
4. **Enhance internal controls by completing reconciliations in a timely manner.**

Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle

Current Status: **CLOSED**

The Department has cross-trained employees to complete the accounting. Management also ensures that reconciliations are completed and that the accounting is correct. The Department is also in the final stages of implementing a new accounting system

HEALTH AND WELFARE, DEPARTMENT OF

05S-16

Fees for mental health services were based on poverty rates that were more than 13 years old. Mental health services are provided to clients at the Department's regional offices as part of the Community Mental Health Services program. It is the Department's policy to charge fees to clients based on their ability to pay, as determined by a discount schedule shown in administrative rules, section 16.04.03. In addition, liable third-party sources, including private health insurance, Medicaid, and Medicare, must be included in developing a client's total ability to pay to maximize reimbursement for the cost of service provided.

Many of the fees charged for Community Mental Health Services had not been updated for years. For example, established fees for various diagnostic and treatment services listed in section 100.09 of the rules had not been adjusted since 1994. The sliding-fee scale, shown in section 100.03, was based on federal poverty rates in effect as of February 1993, more than 13 years ago. The outdated fixed-fee amounts could result in some under-recovery of program costs. However, the outdated sliding fee scale results in clients paying a higher share of the costs in error.

We recommended that the Department adjust the fees listed in the Community Mental Health Services administrative rules to reflect current rates and federal poverty guidelines. We also recommended that the Department consider amending these rules to describe the method for determining the fees, rather than detailed values or fixed amounts, as a way to avoid the need for future amendments.

Current Status: **OPEN**

The Department is evaluating the most equitable way to update and use the same schedule for all Behavioral Health Programs. Once that is determined, the Department will promulgate rules to implement the change.

05S-17

Administrative rules for recovering certain types of Medicaid costs from parents were not enforced. Administrative rules governing the Medical Assistance Program (IDAPA 16.03.09.031) identify the Department's intent to recover from a child's parents, all or part of the cost of certain types of Medicaid services to a child. These rules were developed in response to legislation passed in 1994, which included an appropriation to implement the Legislature's intent that the Department make and collect assessments on a sliding-fee scale from parents whose children are living in nursing homes, immediate care facilities for the mentally retarded (ICF-MR), or receiving benefits under the Certain Disabled Children (Katie Beckett) Program. It was estimated that this action would save Medicaid \$727,200 in fiscal year 1995. These rules were last amended in July 1997.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

Some parents of disabled children filed an action in Idaho's Fourth Judicial District Court. On February 25, 1998, the court ruled that the Department could not require parents to share in the cost of care for children in this program. This ruling was specific to the issues relating to recovery of costs for children in the Katie Beckett program. It did not specifically preclude the Department from pursuing the recovery of medical costs for services to children in nursing homes or ICF-MR.

We found no indication that the Department had taken steps to enforce these rules and collect amounts from parents, sought to amend or delete all or part of these rules, or appealed the District Court's decision relating to the recovery of costs within the Katie Beckett program. The Department's subsequent inaction concerning these requirements had resulted in missed opportunities to potentially recover millions in Medicaid costs from parents, as directed by the 1994 Legislature.

We recommended that the Department undertake a complete analysis of the legal and legislative requirements for recovering certain Medicaid costs from parents. The analysis should seek to resolve the issues of whether to amend or delete these rules, appeal the District Court's ruling, or request legislation to clarify the intentions or authority to recover these costs from parents.

Current Status: **CLOSED**

The Department has rewritten these rules and deleted the requirement to recover certain Medicaid costs from parents, effective July 1, 2006. The revised rules will go before 2007 Idaho Legislature.

INDEPENDENT LIVING COUNCIL, IDAHO STATE

05S-18

The Council's internal control policies were not consistently followed and, in some cases, needed strengthened. The Council was created as an entity independent from other State agencies in July 2004. Prior to fiscal year 2005, the Council was part of the Division of Vocational Rehabilitation. Since becoming a separate entity, the Council has established a relationship with the State Controller's Office to use STARS, and has made a good effort in drafting some policies and procedures. However, some internal control procedures were not consistently followed or were in need of improvement. Some examples of internal control weaknesses were:

1. The Council utilizes a budget-to-actual report as a significant control tool in its internal control system. The report did not reconcile to the data in STARS.
2. The fiscal year 2005 budget-to-actual report showed a budget of \$6,000 for rental income. The budget-to-actual report also showed the receipt amount was indeed \$6,000. The Council's STARS information showed that there was \$6,500 in rental income receipts. STARS also showed another \$1,000 related to rental income accounted for using a separate, incorrect sub-object code, resulting in a \$1,500 discrepancy not shown on the Council's budget-to-actual report.
3. The Council's accounting staff had learned a lot in a short time; however, they did not have complete training or understanding

of STARS, and did not consistently comply with the internal control policies that have been implemented. Inadequate training and understanding of STARS, coupled with the inconsistent compliance with controls, could lead to the Council making financial decisions based on erroneous data.

Accounting standards require that the Council maintain an internal control system that is designed to provide reasonable assurance of the prevention or prompt detection of the unauthorized acquisition, use, or disposition of assets.

We recommended that the Council contact the State Controller's Office for additional STARS training, and follow accounting procedures in a consistent manner.

Current Status: **CLOSED**

The Council's accounting staff has obtained additional STARS training provided by the State Controller's Office. Also, the Council has implemented other specific recommendations to improve and strengthen internal controls including reconciling the Council's budget-to-actual report to the accounting system as well as implementing a system in which the executive director reviews the coding for accounting transactions. The executive director stated that the auditor's suggestions have been implemented, and the suggestions proved to be quite helpful in improving the internal controls of the Council.

INDUSTRIAL COMMISSION, IDAHO

05S-19

The Industrial Administration Fund averaged \$5.9 million in excess cash each month during fiscal year 2005. Average monthly excess cash during fiscal years 2002, 2003, and 2004 was \$4.5 million, \$3.8 million, and \$4.4 million, respectively. The money in this fund is from a premium tax established in Idaho Code, Section 72-523. The premium tax is set at 2.5% of the net workers' compensation insurance written by sureties, and 2.5% of premium amounts self-insurers would be required to pay to the State Insurance Fund. Because the premium tax rate is fixed, management cannot adjust the rate to reduce excess cash or increase cash, as needed, without legislation.

The premium tax rate should be commensurate with the financial requirements for administering the Workers' Compensation Law and paying claims. Excess cash continues to accumulate, and insurers and ratepayers may be overcharged because management cannot adjust the premium tax rate in a timely manner to match cash needs.

We recommended that the Commission monitor the fund's cash balance with the cash needs of the Commission, and propose recommendations to the Legislature for appropriate adjustments, as needed.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

Current Status: **CLOSED**

The Commission met with the Division of Financial Services, who advised the Commission to provide a premium discount to insurers. However, the Attorney General's Office reviewed Idaho Code and determined there was not statutory authority for a premium discount. Subsequently, the Commission met with key legislators who deferred discussion of the matter until after completion of the 2006 legislative session. The Commission's fund balance at the end of March has increased to \$10.7 million. Since the Commission had more cash available, it planned to fill vacant positions that had intentionally been left open to save funds, upgrade the computer software, possibly contract computer programmers to help on internal projects, and increase staff training.

VOCATIONAL REHABILITATION, DIVISION OF

05S-20

The Community-Supported Employment Program and related services were not coordinated or monitored. This program was shifted from the Idaho Department of Health and Welfare to the Division of Vocational Rehabilitation at the beginning of fiscal year 2005. During fiscal year 2005, the Division received \$3.97 million for this program. Most of these funds (\$3.76 million) were paid to providers for community-supported employment and related services for developmentally disabled clients. Many of the providers also provide developmental therapy services that are billed to the Medicaid program. During fiscal year 2005, more than \$28.7 million in Medicaid funds were paid to these same providers. Other State agencies, including the Department of Commerce and Labor, Department of Administration, and Department of Health and Welfare, purchased more than \$7 million for other goods and services during this same time period.

Coordinating and monitoring funding for community-supported employment is essential. The Division has two employees assigned to the program who visit provider sites, but do not document their visits. Without fully monitoring program services and related costs, the Division is unable to ensure that program objectives are met.

We recommended that the Division establish a monitoring program for the Community-Supported Employment Program.

Current Status: **CLOSED**

The Division has created a form to monitor vendor activities in relation to services billed. Monitoring visits to all vendors at least once every two years are now required as well.

WATER RESOURCES, DEPARTMENT OF

05S-21

Controls over the Department's energy loan program were not adequate. The Department provides financial assistance by making low-interest loans to individuals and organizations for programs and projects that result in the conservation of energy or the utilization of renewable resources. Following are some of the control weaknesses with the loan program that may have been attributable to the lack of management reports.

**Prior State Findings and Recommendations
Prior to the Fiscal Year 2006 Audit Cycle**

1. One employee was responsible for approving loan disbursements, establishing account receivables, making adjustments to receivable balances, receiving payments, posting payments, and completing reconciliations.
2. Loan-receivable balances from the Department's loan accounting system did not agree with balances recorded in STARS during the audit period, even after the Department made adjustments totaling \$86,000. Some adjustments were not properly made, and the Department did not have documentation to support other adjustments.
3. The Department had an unexplained receivable balance of \$2,196 in one of its energy loan funds that had not changed over a three-year period.
4. Local banks state that they reviewed the credit worthiness of energy loan applicants in accordance with guidelines provided by the Department. However, the Department had not provided any credit guidelines to the banks.

We recommended that the Department review its loan program and consider the need for reports that will help it manage the program. We also recommended that the Department improve internal controls and accounting procedures by:

- 1. Reviewing accounting duties and separating them accordingly to improve internal control.**
- 2. Keeping documentation to support adjustment transactions and ensuring they are properly recorded.**
- 3. Researching receivable balances and taking necessary action to ensure they are properly resolved.**
- 4. Providing credit guidelines for banks to follow when approving energy loans, or changing the wording on the loan application.**

Current Status: CLOSED

The Department has taken steps to correct the control weaknesses in the loan program by :

1. Modifying loan program software and assigning staff new duties to segregate loan activities.
2. Reconciling loan receivable balances to STARS.
3. Removing the unexplained receivable balance of \$2,196 in STARS.
4. Providing credit guidelines for banks to follow when approving energy loans.

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